

WORLD NEWS

EUROPE

INTEREST RATES ATTACK BY PRODI TOUCHES RAW NERVE

UK bank stirs row over high cost of Italian mortgages

By James Blitz in Rome

A row has blown up over the cost of mortgages offered by Italy's commercial banks after Romano Prodi, the prime minister, subjected the sector to unexpected criticism.

In a sign of the painful pressures which joining the single European currency will entail for the country's banking system, Italian banks are grudgingly being forced to cut their mortgage interest rates after initially ruling out any change in lending policy.

The row over rates - in which a leading UK bank has also been an important protagonist - was triggered at the end of last week, after the Bank of Italy cut interest rates for the first time this year, reducing Italy's benchmark rate to 5 per cent ahead of the expected adoption of the euro.

The cut in the cost of borrowing was welcomed by the government, which hopes it will boost growth. But Italian banks failed to make corresponding cuts in the cost of variable-rate mortgages, leaving them at about 7 per cent. This drew attacks from Mr Prodi about the way they were making profits out of the customer.

His comments reflected irritation at the modest speed with which the banking system is responding to the challenge posed by imminent entry into monetary union.

There has been a wave of Italian banking mergers ahead of the euro's launch, prompted partly by fears of the competitive pressures that will emerge. But few Italian banks are investing in sophisticated lending products of the kind now commonplace across Europe.

Instead, they continue to rely on large spreads between the costs of lending and borrowing as a way of making money.

Mr Prodi's call for cheaper mortgages coincided with real signs of competition, however. He appears to have been impressed by a decision last week from Abbey National Bank, one of the UK's leading institutions, to offer a variable-rate mortgage to Italian customers at 4.98 per cent - as much as two percentage points below those offered by its Italian rivals.

The Abbey National product is complex. The bank is borrowing three-month lira at 4.98 per cent, so it makes no profit on the mortgages at present. But Adrian Hill,

Abbey National's chief executive in Italy, says the bank will claw back profits as interest rates come down.

"The Italian retail market is there for the taking," says Mr Hill. Within two days of launching its new product, the bank had completed 50 new mortgage contracts and is now getting 3,000 inquiries a day from Italians across Italy.

Some Italian banks, led by Banca Popolare di Milano, have since responded to the pressure, lowering rates to 5 per cent. But many retain a poor image with the 35 per cent of the Italian population who are homeowners.

One problem is that a decade ago about 850,000 families ill-advisedly signed up for fixed-rate mortgages at a rate of between 12 and 14 per cent. Italian banks also demand a penalty payment of 20 per cent on outstanding debt from people wishing to leave a fixed-rate mortgage. UK banks demand about 5 per cent.

Meanwhile, overmanning in the sector - which needs to shed some 60,000 employees, according to the Italian banking association (ABI) - means many banks are reluctant to reduce income through lending.

Cities give 'green' light to low emissions vehicles

Charles Batchelor on a new initiative which seeks to encourage environmentally friendly transport

The historic centres of many European cities could be barred to all but the most environmentally acceptable vehicles over the next 10 years if an initiative launched this week is successful.

Six cities have already signed up to lead the Alternative Traffic in Towns (Alter-Traffic) project, which aims to give zero or low emission vehicles exclusive rights to enter their centres. But its promoters, who unveiled their plans to European Union transport and environment ministers meeting in the ancient English city of Chester on Sunday, hope to have 500 taking part before too long.

Athens, Barcelona, Florence, Lisbon, Oxford and Stockholm are leading the way but all the 1,400 cities in the EU with populations of 100,000 people or more will be invited to a conference in Florence in October to consider joining. "We are facing severe environmental problems affecting the health of our citizens and the condition of our cultural and historic monuments," said Demetris Efsthadiades, prefect of Athens.

Restricting city centres to "green vehicles" would represent a considerable step forward on current traffic calming measures such as pedestrian-only zones and parking curbs and could allow their extension to far larger areas of cities.



Pedal power: Florence is one of six cities encouraging 'alternative traffic' by giving low emission vehicles exclusive rights to centres. UFP

pedestrian-only zones and parking curbs and could allow their extension to far larger areas of cities.

The problems of many city centres, where buses and taxis continue to churn out acrid fumes in otherwise car-free zones, would be overcome. Once the inhabitants of several hundred European cities start buying cars powered by fuel cells, electricity or gas, and civic fathers order zero or low emission buses,

have pledged that when they replace their present public service vehicle fleets they will buy zero or low emission versions.

Which type of low emission vehicles are allowed will depend on the city authorities, taking into account local preferences. There will be no Europe-wide legislation to impose standards, Mr Holland said. He compares this with California, which

When a battery-assisted bicycle can cost up to \$1,670 there is a price barrier to overcome. Florence offered local residents a 25 per cent discount on electric powered scooters, free electricity and refuelling points throughout the city but abandoned the initiative when too few people took it up.

But when a consortium of north European cities placed a joint order for 600 electric vehicles, prices dropped to the same level as conventional petrol-driven versions, said Gustav Landahl, spokesman for Stockholm. The cost of very expensive items such as AC/DC converters fell by a factor of ten when large numbers were ordered.

The UK Society of Motor Manufacturers and Traders welcomed the Alter-Traffic initiative but said until available that manufacturers could see which specific green technologies were required it would be difficult for industry to scale up production and reduce costs. "Governments have to make a choice whether to regulate or encourage people to use certain types of low emission vehicle," it said.

Local authorities have considerable purchasing power and the six lead cities

introduced tough state legislation which required the motor manufacturers to meet quotas for green vehicles. The law was so far ahead of the technology available that manufacturers were unable to make affordable vehicles the public was willing to buy.

Athens is one of a number of cities which has attempted to reduce car traffic by allowing odd and even-numbered vehicles into its centre on alternate days. But growing wealth meant more families could afford two cars and traffic has continued to increase. The

city is now considering applying a "green" vehicle restriction to an eight sq km area of its centre.

Florence already restricts entry to a 3 sq km area of its centre to residents' vehicles and is considering insisting they use zero or low emission vehicles, said Mario Primicerio, mayor.

Oxford has attempted to restrict car use for the past 25 years but still faces problems in its city centre where buses and other permitted vehicles spew out fumes damaging health and the city's 500 historic buildings. It plans to convert its fleet of public service vehicles to low emission standards.

Mr Holland believes that the green cities project will become as popular as the nuclear-free zones initiative he launched when he was an executive committee member of the European Campaign for Nuclear Disarmament. This led to large and small towns throughout Europe displaying "nuclear free" signs on their main road approaches in the 1970s.

Recent changes in the financing guidelines operated by the European Investment Bank and the European Investment Fund allow them to back urban regeneration projects. This would provide funding for the traffic measures which would have to accompany the "green" vehicles scheme, including the roadside signs Mr Holland is convinced many cities will be sporting in the next few years.

CONTRACTS & TENDERS

NOTICE

Arab Republic of Egypt
Ministry of Electricity & Energy
Egyptian Electricity Authority (EEA)
Two BOOT Power Plants
in Suez Gulf and Shark
El - Tafriaa Invitation For
Pre-Qualifications
IFPQ 21/98

Reference to the EEA's Invitation of the experienced Independent Power Producers / Developers for Pre Qualification, EEA announces that the submission date of the Pre-Qualification documents is Tuesday 30/6/1998 before 12:00 Noon Instead of Thursday 30/7/1998

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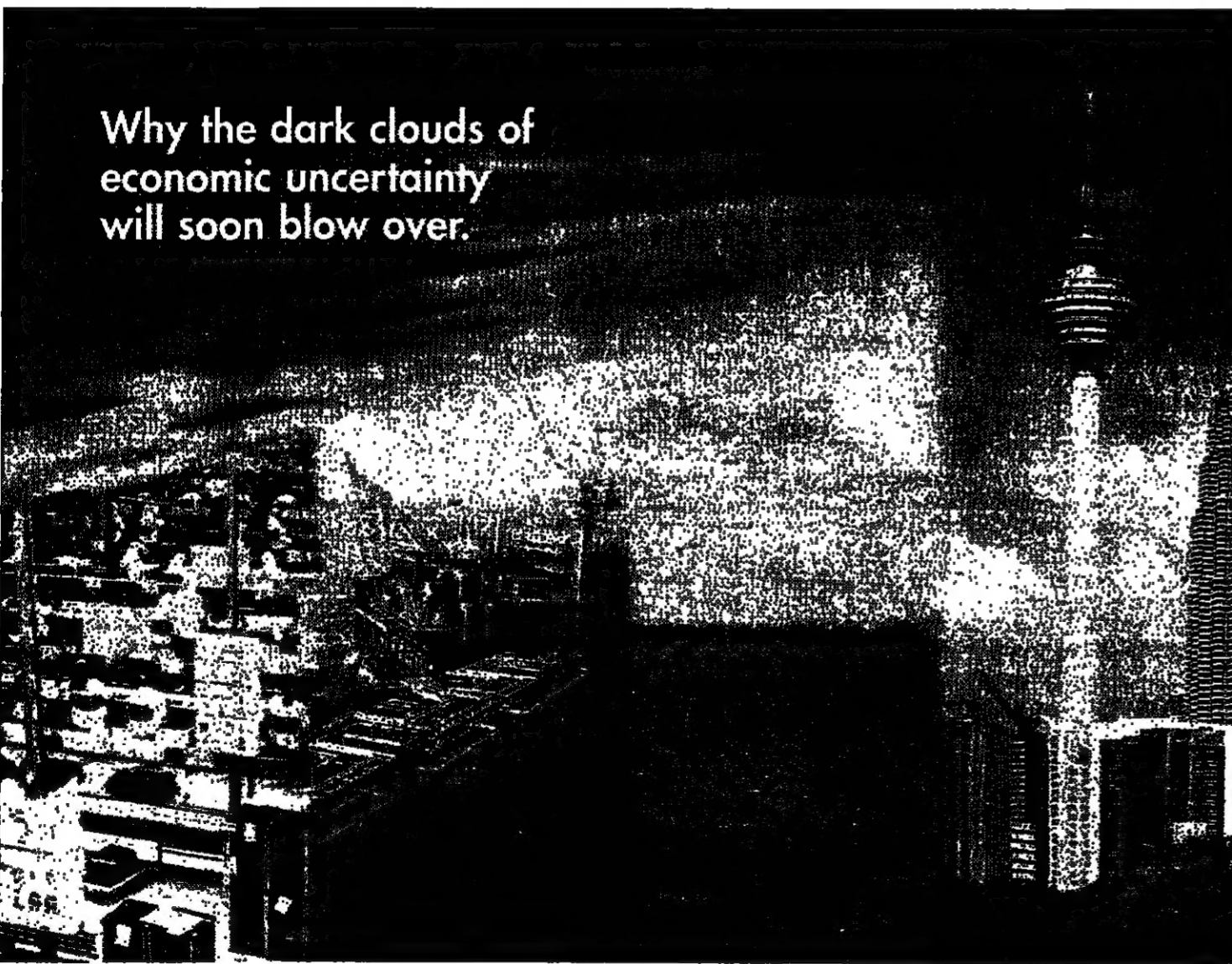
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to early talks

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سكنا من الامم

Bloodshed drowns Kosovo peace hopes

Diplomats concede that a low-level war is being fought in the region with little prospect of western sanctions resolving the crisis. **Guy Dinmore** reports from the battlefield.

Adem Nacaj shuddered and then wept as he lifted the lid of the coffin containing his 30-year-old son Veli. "These Serbs are war criminals. What they are doing is unbelievable," he cried.

In all, 19 coffins were laid out in a bare room thick with the stench of death. Outside more relatives gathered to identify the bodies.

All were young ethnic Albanian men said by the authorities to have been killed by Yugoslav army troops last Thursday while attempting to smuggle arms from Albania into Serbia's restive province of Kosovo.

The truth may never be known. Villagers insisted that some of the dead had been arrested days before the border clashes. Skender Bajraktari claimed his brother Halil had disappeared on April 19 after he went to buy food.

The village - known as Erec to the Serbs and Herec to Kosovo's ethnic Albanian majority - lies just 10km from the snow-capped mountains that form the border with Albania. Occasional gunfire and explosions could be heard from a nearby hill, where Serbian police have placed down suspected "terrorists" of the separatist Kosovo Liberation Army (KLA) in the village of Babaloc.

Villagers said Ghjemile Tahiraj, a 35-year-old woman, had been hit in the leg by a sniper's bullet while walking to Erec to identify the body of her husband Hasan. Cut off by the fighting, she was said to be bleeding to death and villagers were too afraid to rescue her.

"We don't run an ambulance service," said a western worker with the International Committee of the Red Cross, 70km away in the provincial capital Pristina, but she promised to investigate the report.

The crisis in Kosovo has deteriorated since special Serbian police units launched an offensive on February 28 against suspected KLA strongholds in the central Drenica area near Pristina. Over 80 ethnic



Albanians were killed within a week, many of them women and children.

Heavily armed police man checkpoints protected by sandbags along main roads. The federal Yugoslav army has brought in hundreds of reinforcements, as well as tanks and artillery, to guard the porous border with Albania.

Some are digging positions deeper inside Kosovo near the villages of Babaloc and Glogjane where armed ethnic Albanians are concentrated. The authorities report daily attacks by KLA "terrorists" against police posts and what the

Belgrade has rejected the demands of the international community for foreign mediation. There is little sign of even a first meeting between the government, which offers the province limited self-rule, and the Kosovo Albanians led by Ibrahim Rugova who insists on full independence.

Mr Milosevic, politically weaker than when he came to power 10 years ago, is reviving his image as Serbia's nationalist strongman. In a referendum last week Serbs overwhelmingly endorsed his rejection of foreign mediation in Kosovo, a

One senior diplomat denied the Contact Group, originally formed to tackle the civil war in Bosnia, would fall apart over Kosovo, but he saw little prospect of western sanctions resolving the crisis in the short term.

Further violence appears inevitable. If limited sanctions are imposed, possibly a freezing of Yugoslav government assets abroad, then Mr Milosevic will have nothing to lose by launching a full-scale offensive. If the Contact Group prevails, as it did at its last meeting, Belgrade will also be encouraged to take the military option.

Mr Rugova, president of the self-declared Republic of Kosovo, which is recognised by no government, has refused to denounce the KLA or even acknowledge its existence. His policy of passive resistance in tactics, he has been reduced to a figurehead. His party, the LDK, is falling apart.

"I am pessimistic," said Blerim Shala, spokesman for the 15-strong team set up by Mr Rugova to prepare a platform for talks. "I don't see a serious attempt by the international community to stop this conflict."

Mr Shala also acknowledges that probably no politician within Kosovo has the power to curb the KLA, which is funded and organised by radical exiles among the Albanian diaspora in Switzerland and Germany. The poorly organised and equipped rebels lost one of their main commanders in Drenica last month, but have broadened their popular support.

The despair among politicians in the relative calm of Pristina is far more intense among villagers who have sent their women and children to the safety of urban areas and their young men to Albania to collect arms.

"This is the guilt of Europe," said one man in Erec, pointing to the 19 coffin. "What are the Germans doing? You are talking and sleeping. Helmut Kohl and Klaus Kinkel. We only go into the woods now," he shouted in anger.

'I am pessimistic, I don't see a serious attempt by the international community to stop this conflict'

government calls "loyal Albanians".

On the other side, the Democratic League of Kosovo (LDK), the main ethnic Albanian party, names numerous Albanians killed or wounded in villages surrounded by police in Drenica and the border area. It also accuses police of arming Serb civilians.

A few months ago the violence was merely sporadic and there were hopes on both sides of the ethnic divide that the long-running crisis in Kosovo could be resolved through negotiations. With well over 120 people killed this year already, diplomats now concede the conflict amounts to a low-level war.

poor and rarely visited province that is nonetheless still revered for its ancient Orthodox monasteries.

The US State Department describes the situation as "extremely dangerous" and fears Albanian and Macedonian, with its large ethnic Albanian minority, will be destabilised.

Washington says it will push for additional sanctions against the government of Slobodan Milosevic, the federal Yugoslav president, when senior officials of the six-nation Contact Group meet in Rome today.

The tough US stance is backed by Britain and Germany but less so by the other three members - France, Italy and Russia.

GIBRALTAR INITIATIVE OFFER OF DIRECT DIALOGUE MARKS CHANGE IN POLICY

Madrid invites Rock minister to early talks

By Tom Burns in Madrid

In a reversal of its traditional approach, Spain has issued an invitation to the chief minister of the UK colony of Gibraltar to attend bilateral talks in Madrid at the earliest opportunity.

The meeting is likely to take place before summer. The effort to establish a direct dialogue marks a change from Madrid's long-standing policy of discussing the vexed problem of Gibraltar only with the UK government.

The talks are expected to focus on proposals by Abel Matutes, Spain's foreign minister, for a long transitional phase during which Spain and Britain would exercise co-sovereignty over Gibraltar and for a subsequent arrangement that would guarantee the Rock's 30,000 population a large measure of autonomy under a Spanish flag.

They will also review counter-proposals by Peter Caruana, Gibraltar's chief minister, to create a new constitutional framework governing relations between the UK and Gibraltar.

"We want a open agenda for this historic meeting and we hope to clear the air," a senior Spanish diplomat said yesterday. A spokesman for Mr Caruana said Gibraltar's chief minister would "welcome the possibility" of meeting Mr Matutes.

To break the deadlock over the disputed colony, which has been governed by Britain for nearly 300 years, Mr Matutes proposes that shared sovereignty will remain in place for several generations.

Gibraltar would enjoy wide-ranging self-government and would maintain special tax privileges within the European Union.

Mr Caruana, who has frequently accused Spain of using "bullying tactics" to pursue its sovereignty

claims over the Rock, has rejected Mr Matutes' proposals as unacceptable. He wants to negotiate a new constitutional arrangement with the UK which will replace the Rock's colonial dependency with a status similar to that of Jersey, Guernsey and the Isle of Man.

Mr Matutes aired his co-sovereignty ideas during talks with Robin Cook, UK foreign secretary, in December. Mr Cook did not reject the plan outright, but reiterated Britain's commitment



Peter Caruana wants to create a new constitutional framework.

to respect the wishes of the Gibraltarians, as enshrined in the colony's 1988 constitution.

An opinion poll published on Monday by the Gibraltar Chronicle indicated that 35 per cent of the Rock's population wanted integration with the UK and a further 22 per cent wanted a status similar to that of Jersey.

Only 2 per cent of the 1,200 Gibraltarians surveyed in the poll supported Mr Matutes' co-sovereignty deal, but 64 per cent backed a dialogue with Spain.

Ukraine needs \$358m to repair Chernobyl 'shell'

By Lyle Boulton, Environment Correspondent

Ukraine is to launch a worldwide appeal for \$358m to make safe the cracking "sarcophagus" shielding the Chernobyl reactor which blew up 12 years ago.

Development in Kiev next month and then at a conference of the country's aid donors in October.

He also stressed that making the sarcophagus safe was Ukraine's main priority in its list of requirements for coping with the aftermath of the accident, which damaged the lives of 800,000 people and contaminated 300,000 hectares of arable land and forest.

But he maintained that

Ukraine still needed western funding to complete two unfinished Soviet-built reactors, as a condition for closing down the one reactor which is still capable of producing electricity at Chernobyl.

A Ukrainian promise to close it down by 2000 has become embroiled in a row over western funding for the two unfinished reactors at Kimmintsky and Rivne power plants. He said the Chernobyl reactor was safe, and might reopen after some maintenance work next month because Ukraine needed it for its economy to function.

"It is impossible to switch off the Chernobyl power plant like turning off the light switch in the home."

Ukraine still needed western funding to complete two unfinished Soviet-built reactors, as a condition for closing down the one reactor which is still capable of producing electricity at Chernobyl.

Pursuant to Article 277, paragraph 2, of the Companies Act, and Article 52, paragraph 1, of the Articles of Association of Zagrebačka banka d.d., the Management Board of Zagrebačka banka d.d. passed, on 21 April 1997, Decision (no. 2838/98) on Calling

Annual General Meeting of Shareholders of Zagrebačka banka d.d., Zagreb, Croatia

to be held on 8 June 1998, at 12:00 hours, at the Vatroslav Lisinski Concert Hall, Trg Stjepana Radića 2, in Zagreb.

Zagrebačka banka dd

The following agenda for the Annual General Meeting has been agreed:

- The report of the Supervisory Board
- The 1997 Annual Report of Zagrebačka banka d.d.
 - Decision on approval and adoption of the Annual Report of Zagrebačka banka d.d. for the year ended 31 December 1997; and Report on State of Affairs of Zagrebačka banka d.d. (forming an integral part of the Annual Report)
 - Decision on the appropriation of profits
- Approval of conduct of the Management and Supervisory Boards
 - Decision on approval of conduct of the Management Board
 - Decision on approval of conduct of the Supervisory Board
- Decision on remuneration for the Supervisory Board members
- Establishment of termination of office of a Supervisory Board member and the election of a new member
 - Decision on establishment of termination of office of a Supervisory Board member, Dr. Mato Perak
 - Decision on election of Mr. Nedeljko Šarić a member of the Supervisory Board
- Decision on the appointment of auditors of Zagrebačka banka d.d. for 1998
- Amendments to the Articles of Association
 - The Management and Supervisory Boards propose that the Supervisory Board's Report on Supervision of Operations of Zagrebačka banka d.d. for 1997, and the Annual Report of Zagrebačka banka d.d. for the year ended 31 December 1997, be approved.
 - The Management and Supervisory Boards have defined the Annual Report of Zagrebačka banka d.d. for the year ended 31 December 1997 and the Report on State of Affairs of Zagrebačka banka d.d. for the year ended 31 December 1997, and propose that the General Meeting pass the decision on the approval of the relevant documents.
 - The Management and Supervisory Boards propose that the General Meeting pass the Decision on Appropriation of Profits of Zagrebačka banka d.d. for 1997, stating that Zagrebačka banka d.d. made profits (after taxation) in the amount of HRK 257,789,090.14 in the year ended 31 December 1997, and proposing that profits be allocated as follows:

A portion of profits amounting to HRK 71,360,815.38 shall be disbursed to the shareholders as dividends, the dividend payable on the A, B and D series ordinary shares being equal to 7% of the shares' nominal amount, the dividend payable on the C series preference shares equal to 11%, and the dividend payable to the E series preference shares equal to 7% of the shares' nominal value calculated on the basis of the kuna countervalue of the shares' nominal amount at the mean rate of exchange determined as the arithmetic mean of the Bank's selling and buying exchange rates for DM at the date of dividend disbursement, and the remaining profits in the amount of HRK 186,428,274.76 shall be allocated to the Bank's reserves.
 - The Management and Supervisory Boards propose that the General Meeting pass the Decision on Approval of Conduct of the Management Board Members.
 - The Management and Supervisory Boards propose that the General Meeting pass the Decision on Approval of Conduct of the Supervisory Board Members.
 - The Management and Supervisory Boards propose that the General Meeting pass the following Decision, laying down the remuneration of the members of the Supervisory Board of Zagrebačka banka d.d.:

Members of the Supervisory Board shall be paid a one-off consideration in the amount of HRK 1,000 per meeting for their attendance at the Supervisory Board meetings during 1998.

A member of the Supervisory Board shall be entitled to the above consideration only if he/she has attended a particular meeting.

Apart from the consideration referred to in paragraph 1 of this section, members of the Supervisory Board shall also be entitled to the reimbursement of travel expenses arisen in connection with their attendance at a meeting of the Supervisory Board.
 - When disbursing the amounts of consideration referred to in paragraph 1 of this section and the travel expenses referred to in paragraph 3 of this section, the Bank shall pay the respective income tax liabilities calculated, by applying a translated rate, at the highest rate (35%), and the surtax liabilities calculated at the rate ruling at the place of the member's permanent residence.

Article 1

Article 24, para. 1, is amended to read as follows:

"The Bank's Management Board shall be comprised of 5 (five) to 9 (nine) members. The Supervisory Board is authorised to decide, upon the proposal of Chairman of the Management Board, on the number of Management Board members."

Article 2

Other provisions of the Articles of Association shall remain the same.

Article 3

The above amendments to the Articles of Association shall come into force on the day of their entry in the Trade Register, and they shall apply as of the election of a new Management Board after the expiry of the term of office of the present Management Board.

The Supervisory Board is authorised to define the revised text of the Articles of Association.

If there be no required quorum to pass decisions at the Annual General Meeting, as stipulated by the Articles of Association, the Annual General Meeting shall be adjourned and the next Annual General Meeting held at the same place on 15 June 1998, at 12:00 hours.

The shareholders entitled to vote are hereby invited to attend the Annual General Meeting. The shareholders may authorise financial institutions and authorised associations of shareholders, or other persons, to represent them at the Annual General Meeting in the capacity as proxy, and they must give their proxies instructions as to how to vote at the Annual General Meeting on the items considered.

Each DM 100 of nominal value of voting shares shall carry one vote at the Annual General Meeting. An individual shareholder may alone, or with other shareholders, hold the maximum of 5% of the total number of votes represented at the Annual General Meeting. Voting shares exceeding this percentage shall carry no voting rights.

A shareholder, or their proxy, intending to participate in the work of the Annual General Meeting is required to file a written application with the Management Board fifteen days prior to the Annual General Meeting at the latest. Such shareholder shall deposit their shares, or special certificates, with the Bank fifteen days prior to the Annual General Meeting at the latest. Applications for participation are submitted and the shares deposited in Legal Department, Share Register Office, at Parominska 2, Zagreb.

The votes of the shareholders present or duly represented at the Annual General Meeting cast by means of original and duly signed voting papers submitted prior to the Annual General Meeting shall be considered at the time of voting at the Annual General Meeting.

The amount of the remuneration shall depend on the results for the financial year.

Zagrebačka banka d.d.
Parominska 2, Zagreb

Zagrebačka banka d.d.
Parominska 2, Zagreb

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Parominska 2, Zagreb

EUROPE

Kiriyenko set to streamline cabinet

By Chrystia Freeland in Moscow

Russia's new government began to take shape yesterday, as Boris Nemtsov, the reformist former provincial governor, and Viktor Khristenko, a finance ministry technocrat, were named deputy prime ministers.

The appointments followed a meeting between President Boris Yeltsin and Sergei Kiriyenko, the new prime minister, who won a bitter confirmation battle with parliament last week.

As had been expected, a number of other senior ministers have kept their jobs. Zadorov, a respected liberal, will stay on as finance minister. Yevgeny Primakov, the powerful foreign minister, Sergei Stepashin, the recently appointed minister of the interior, and Igor Sergeev, the minister of defence, will all keep their posts in the new cabinet.

Mr Kiriyenko's half-formed government will be slimmer than the unwieldy machine ruled by his predecessor. Mr Nemtsov and Mr Khristenko were named deputy prime ministers, not first deputy prime ministers, the title given to the two most senior ministers in the old cabinet.

No other deputy ministers were named yesterday, suggesting that Mr Kiriyenko is succeeding in his plan to cut the number of posts in the government. A government spokesman said that a special cabinet presidium, to

which only the most senior ministers would belong, would have a strengthened co-ordinating role.

Thinning the cabinet could boost authority of the new deputy prime ministers. Boris Nemtsov, the new premier's former political mentor, said his own power would be expanded.

"This is because the number of deputy prime minis-



Nemtsov: more power

ters will be cut and thus the powers of those who remain will increase," he told the news agency Interfax.

The biggest surprise in yesterday's appointments is Mr Khristenko's elevation.

Although he has won respect as a skilled technocrat in the finance ministry, where he served as deputy minister, he is not very well known. A former businessman from the Siberian city of Cheliabinsk, he was brought

in to the finance ministry by Anatoly Chubais, the reformer sacked from the cabinet last month, and handled relations between the regional and federal budgets.

Mr Khristenko's appointment could mean that the new cabinet will be dominated by technocrats who, like Mr Kiriyenko himself, are reformist but favour a less confrontational style than the "young wolves" who led the liberal faction in the previous cabinet.

Officials said they expected Mr Kiriyenko to be responsible for federal-regional relations, including the troubled issue of federal subsidies and the division of tax revenues between Moscow and the provinces.

Officials said that Mr Yeltsin would meet Mr Kiriyenko tomorrow to determine the rest of the appointments to the new government.

The Kremlin administration, which some observers speculated had lost some of its influence over the president during the tense political crisis of the past month, appears to be exercising a strong voice in the formation of the new government.

Valentin Yumashev, Mr Yeltsin's chief of staff, attended yesterday's meeting between the president and the prime minister.

The Kremlin also re-appointed Nikolai Aksenenko, a rising young reformer, as transport minister.

Referee errors become an affair of state

By Paul Betts in Milan

An extraordinary sequence of errors in favour of Juventus, the Turin soccer club owned by the Agnelli family, became an affair of state yesterday when the Italian parliament called for urgent measures to ensure higher refereeing standards.

On Sunday, the referee in Juventus' match against Inter Milan refused to grant the Milan club a penalty for a clear foul against Ronaldo, the Brazilian superstar.

The decision has had wide reverberations in a sport that has become big business. The victory virtually secures the Serie A (premier league) championship for Juventus, wrecking the chances of Inter Milan, which until then had only been one point behind.

The decision followed a recent string of other decisions favouring Juventus. The previous Sunday, Juventus beat Empoli 1-0 after the Tuscan team was refused a goal.

Walter Veltroni, the deputy prime minister and a Juventus fan, told parliament that the referee errors had become "a serious problem" and the government intended "to find a remedy".

Massimo Moratti, the chairman and controlling shareholder of Inter Milan, said he was considering dropping out of soccer after investing billions of lire to rebuild the club and prepare it for a stock market listing. Marco Tronchetti Provera,



Painful moment: Ronaldo shows his unhappiness with a tackle by Mark Iuliano of Juventus; the referee refused a penalty. AP

the chairman of Pirelli, the tyre group, which holds 13 per cent in Inter Milan, criticised the lack of professionalism among referees. He protested that "future shareholders of clubs planning to be listed on the stock market should not risk being penalised by unprofessional refereeing behaviour".

A large number of Serie A teams are now planning stock market listings and are

expanding into new merchandising and other lucrative business activities. The latest was a public share issue which closed yesterday by Lazio, the Rome club.

The Italian football federation held a meeting in Rome yesterday with representatives of referees. There have already been suggestions of electronic devices and television cameras to avoid human errors.

NEWS DIGEST

EMU STABILITY

Dutch bank warns politicians on deficit

The Dutch central bank yesterday warned political leaders that their spending plans were in danger of putting the country out of line with the European Union's stability pact, a cornerstone of monetary union (Emu).

Nout Wellink, who took over as governor last year from Wim Duisenberg, said some F1 16bn (\$8bn) in windfalls over the past four years had been put mostly towards tax cuts rather than a further reduction in the budget deficit.

This was a "missed chance" at a time when the economy was performing well. At 1.4 per cent of gross domestic product for 1997, the deficit was well below the monetary union norm of 3 per cent but it was threatening to edge up this year to 1.5 per cent.

This would be unfortunate, said Mr Wellink, pointing out: "The pact provides, for good reasons, that across the business cycle countries should strive for a budgetary position close to balance or in surplus."

The warning came as the campaign for a May 6 general election entered its final week. Gordon Cramb, Amsterdam

TOXIC WASTE SPILL

Farmers claim losses of \$78m

The toxic spill in southern Spain has cost millions of dollars in crop losses and left thousands of acres of farmland barren for the next 25 years, the Confederation of Farmers and Livestock Organisations said yesterday.

It estimated initial agricultural losses at Pta12bn (\$78m), mostly in rice, cotton and fresh fruits and vegetables. It said 13,355 acres of crop land would be left barren as a result of the spill. "It's not only an ecological disaster, it's a big social disaster as it affects people and their sustenance," said a confederation spokesman, Jesús Larena.

Some 167 cu feet of contaminated waste burst on Saturday from a giant reservoir at the Aznalcollar mine, owned by a Canadian-Swedish company, Boliden. AP, Madrid

DANISH STRIKE

Transport and trade hit

Sections of Danish industry were again paralysed yesterday on the second day of a national strike as the employers' federation said it would consider a trade union proposal to restart stalled negotiations.

Key transport services suffered severe disruption yesterday, heightening concern among importers and exporters over the impact on trade. Saab Automobile said it would be forced to halt its entire Swedish production from tomorrow because supplies of Danish-made components had been blocked.

The strike, involving more than one-quarter of Denmark's workforce, was triggered when union members rejected a 4.5 per cent pay increase for this year and 4 per cent next. Danish inflation is currently 2.3 per cent.

Denmark's prime minister, Poul Nyrup Rasmussen, yesterday repeated his resistance to calls for government intervention to end the strike. Greg Mcivor, Stockholm

TURKISH POLITICS

Yilmaz denies caretaker claim

Turkish political leaders appeared yesterday to be on the verge of abandoning an agreement reached last week to hold general elections in March 1999.

Mesut Yilmaz, leader of the minority three-party coalition government, denied that he had reached a formal agreement with the People's Republican party (CHP), a small opposition social democratic party, which has supported the government in key parliamentary debates, to form a caretaker administration in October ahead of the polls.

Mr Yilmaz called on Deniz Baykal, the CHP leader, to "rethink" his claims that the government would give way to an administration of independent technocrats in the autumn. He said that at last week's meeting with Baykal "we did not definitely agree on a [caretaker] government. Mr Baykal gave public opinion the impression that this was agreed. Mr Baykal should rethink this issue."

However, Mr Baykal hit back at Mr Yilmaz. He said: "He should either stand by the agreement he made and show his moral courage or forego the opportunity of showing he is being serious and giving Turkey the chance of reaching a stable future." John Barnham, Ankara

Use growth dividend, Paris told

By Robert Graham in Paris

An influential advisory council yesterday urged the French government to ignore calls from its EU partners for a further reduction in the budget deficit and instead to use the "dividend" from strong growth to sustain consumption and create jobs.

In the first of its statutory bi-annual comments on the economy, the state-funded Conseil Economique et Social warned that even with the economy achieving 3 per cent growth this year, there would be insufficient impact on the number of jobless.

The report was unveiled in

front of Lionel Jospin, prime minister, the first head of government to attend the event in person.

The conclusions of the "wise men" are bound to provide fuel for a powerful segment of the Socialist-led government's supporters, which insists France ignore the demands of further budgetary restraint imposed by membership of the euro.

Instead, the left wants a modest 1999 budget deficit target of no more than 2.5 per cent of GDP with the extras from the economic recovery devoted primarily to social spending.

The debate is expected to gather steam as the framework of the 1999 budget

begins to be fleshed out after the summit this weekend to launch the euro. Mr Jospin himself indicated last week he favoured a modest rise in the level of public spending next year.

The Bank of France and the Ministry of Finance have already cautioned that these demands risk being counter-productive, since such a path risks confrontation with other members of the euro-zone, notably Germany.

They add that it is best to work towards a balanced budget now to provide room for manoeuvre when the cycle turns.

Yesterday's report believes it will require annual growth rates of 3.0-3.8 per cent over

the next five years to bring unemployment down from the current 12.1 per cent to 7.5 per cent.

The report urges the government to improve the investment climate with a special stimulus to research and development, pointing out that France has fallen to 13th in the world patents league. It also favours a bigger public works push, especially in the housing sector, where there is a shortfall of 360,000 units.

The council also suggests a gradual five percentage points cut in the VAT rate from the present average high of 20.5 per cent, to release extra consumer spending.

Belgian premier survives vote

By Neil Buckley in Brussels

Belgium's prime minister, Jean-Luc Dehaene, last night survived a vote of confidence over the embarrassing escape of the country's most notorious criminal last week, after sacrificing the national police chief.

Deputies voted 81 votes to 64 against the opposition motion, with one abstention, after the four coalition parties united behind the government. However, the 81 votes exactly matched the number of MPs in the government parties, indicating solid support for the opposition parties.

The result was another success for Mr Dehaene, one of Europe's most tenacious political survivors, and for his strategy of jettisoning two ministers last Thursday and putting pressure yesterday on Willy Derudder, head of the gendarmerie, to resign.

A defiant and animated Mr Dehaene told parliament the government would accel-

erate its promised programme of legal reforms. These would focus on merging Belgium's two police forces, the gendarmerie and judicial police, attached to the courts, and creating a new supreme justice council to oversee the legal system and vet the appointment of judges.

He added that the government had to stay to ensure Belgium completed its safe passage into European monetary union - with EU leaders meeting this weekend in the Belgian capital to confirm which countries would be members.

Defending his government, which has put qualification for Emu at the heart of its political programme, Mr Dehaene said the single currency was of "major importance" for Belgium.

But opposition leaders argued that the paedophile's escape had demonstrated the failure of the government's entire programme to meet the concerns of Belgian citizens.

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NEWS DIGEST

Netherlands bank warns politicians on deficit

The long-term challenge of how to pay for future generations of retired Americans eased a little last year, due to rapid economic growth, falling unemployment, and low inflation, the Clinton administration said yesterday.

TOXIC WASTE SPILL

Farmers claim losses of \$70

The New York Stock Exchange and Nasdaq Stock Market, the two largest US trading stock market systems, are in the midst of aggressive overseas campaigns to increase the number of non-US companies they list.

DANISH STRIKE

Transport and trade hit

The NYSE has decided to make the growth of its international business a priority, says Georges Ugeux, group executive in charge of international and research programmes at the NYSE.

TURKISH POLITICS

Yilmaz denies caretaker role

The long-term challenge of how to pay for future generations of retired Americans eased a little last year, due to rapid economic growth, falling unemployment, and low inflation, the Clinton administration said yesterday.

SOCIAL SECURITY ECONOMIC GROWTH MEANS SYSTEM WILL REMAIN SOLVENT UNTIL YEAR 2032

Good news for US pensioners

By Gerard Baker in Washington

The long-term challenge of how to pay for future generations of retired Americans eased a little last year, due to rapid economic growth, falling unemployment, and low inflation, the Clinton administration said yesterday.

Administration officials attributed the improvement to last year's agreement with

Congress on a balanced budget and to generally sound economic management.

But at the same time, the trustees said Medicare, the health insurance programme for the elderly, would move into the red more quickly than had been previously thought.

Medicare is now projected to become insolvent in 2008, not 2010 as forecast in last year's budget.

Officials also warned that

the improved climate for social security did not mean that action to shore up its finances could be postponed.

"Although there is no immediate financial crisis, the time to act is now to prevent a crisis from ever occurring," said Robert Rubin, the Treasury secretary, who is also a member of the Board of Trustees.

Social security is a "pay as you go" system, in which current generations of workers contribute payroll taxes to provide pensions for current retirees.

But the so-called trust fund surplus is in fact something of a mirage - it consists entirely of money already lent to the US government for other spending purposes.

For that reason, President Bill Clinton has called for a national debate on how to shore up social security in the medium term. In January, he asked Congress not to spend or give back in taxes any budget surpluses

in the next few years until a solution to social security's problems had been found.

Most members of Congress have broadly agreed with the idea of setting aside fiscal surpluses, but there is little consensus on reform necessary to social security itself.

Mr Clinton is urging delaying serious consideration until after congressional elections in November.

Medicare's problems are much more pressing. Last year's balanced budget agreement reduced some of the system's long-term costs by capping fees paid to healthcare providers, but most analysts believe that it needs radical reform to avert financial collapse.

Stock markets jostle to boost share of overseas listings

NYSE and Nasdaq are campaigning fiercely to attract hundreds of companies eager to raise US funds. John Labate reports

The New York Stock Exchange and Nasdaq Stock Market, the two largest US trading stock market systems, are in the midst of aggressive overseas campaigns to increase the number of non-US companies they list.

They are seeking to attract the hundreds of companies which are eager to raise funds in the US. These businesses range from established European giants to formerly state-owned utilities in emerging markets.

"The NYSE has decided to make the growth of its international business a priority," says Georges Ugeux, group executive in charge of international and research programmes at the NYSE.

Mr Ugeux, a Belgian national now living in New York, was hired 18 months ago by Richard Grasso, NYSE chairman and chief executive, to spearhead the exchange's overseas expansion. Mr Grasso is seeking to double in the next three

years the 350 non-US companies which list on the exchange.

Each month the two executives travel outside the US, most recently meeting leaders in China, in attempts to court companies which want to join US markets.

The NYSE may face tough competition from the Nasdaq stock market. Last month Nasdaq stunned the financial world by announcing it had agreed to acquire the American Stock Exchange, the third largest US exchange. The boards of Nasdaq and the ASE have approved the deal and shareholders of ASE are to vote on it in June.

If the merger is finalised, the combination of Nasdaq's electronic dealer market and the ASE's floor trading and options business could work to extend the exchange's listings beyond its traditional bank of high technology companies. Nasdaq is eager to expand its presence with larger, more established

overseas companies, and it sees its merger with the ASE as a way to do it.

"Since the non-US investor community recognises a stock exchange more than a dealer market, it will be easier to describe who and what we are," says Frank Zarb, chief executive and chairman of the National Association of Securities Dealers, the body that oversees Nasdaq.

Nasdaq currently lists 454 non-US companies. It hopes to at least double that in the next three years.

Nasdaq is trying to overcome a perception that it is dominated by high-tech companies, especially fast growing start-ups eager to test the US capital markets. Large, well established companies in non-technical sectors often prefer to raise capital in the US with a listing on the more prestigious NYSE, world's largest exchange by market capitalisation.

The Nasdaq market is pri-



Ugeux: international business a priority

marily an electronic dealer-driven marketplace, and, unlike the NYSE and the ASE, does not operate under a traditional auction system.

Nasdaq came under intense regulatory scrutiny in 1996 for the dominance of a few large brokerage houses. Reforms have since been put in place to address this issue.

Both the NYSE and the ASE are having to consider how future changes in technology and regulations could alter the way non-US company shares are traded in the US. The current system of American Depositary Receipts, or ADRs, may

increasingly be replaced by a system of direct listings of non-US shares on US exchanges.

The NYSE recently announced its intention to launch a pilot programme aimed at considering direct listings of non-US ordinary shares on the exchange. "I think the world is going gradually to ordinary shares," says Georges Ugeux.

"I would be extremely surprised if in 10 years we had not reached the settlement and clearance level of facility that exists in the bond and foreign exchange markets."

Weak aircraft demand hits US orders

Orders for costly manufactured goods rose modestly in March, the US Commerce Department said yesterday, restrained primarily by weak demand for new commercial aircraft. Shipment of finished products rose but order backlog declined for a second straight month.

The report suggests some momentum in US manufacturing industries, though a 0.8 per cent drop in unfilled orders during March to \$513.01bn on top of a 0.5 per cent decrease in February points to a potential slowing in production ahead.

Meanwhile, US consumer confidence rebounded back in April, nearing a 39-year high as Americans regained their optimism that the US economy would continue to grow at a healthy pace. AP reports from New York.

The Conference Board reported yesterday that its index of consumer confidence rose to 138.7 in April from a revised 138.5 in March. April's figures topped Wall Street analysts' expectations. The index reached 137.4 in February, its highest level since June 1999.

"The upturn in confidence strongly suggests that the US economy will continue its solid, stable growth," said Lynn Franco, associate director at the Conference Board, a New York private research group. "While the current pace of economic growth could slow, there continues to be little chance of either an economic cooling or overheating in months ahead."

NEWS DIGEST

CHIPMAKER PROBE

FTC taking depositions from Intel executives

The Federal Trade Commission has stepped up its antitrust investigation of Intel, the world's largest chipmaker, and recently began taking sworn depositions from the company's executives. Intel said the investigation had moved on from a "document gathering" stage to the taking of depositions. The company said it had been co-operating fully with commission staff and would continue to do so; it was confident it would be vindicated.

"The investigation is extremely broad, covering literally every aspect of our business," Intel said. The company noted that the FTC had recently reviewed two separate acquisitions by Intel and found no violations of antitrust laws in either case after several months of investigations.

Separately, Intel has appealed against a preliminary ruling by a federal court in Alabama in a dispute with Intergraph, a manufacturer of computer workstations, that it might have acted in restraint of trade. Louise Kehoe, San Francisco

VENEZUELAN ALUMINIUM

Union blow to privatisation

Venezuela's labour unions have dealt a further blow to the government, which is struggling to relaunch its \$2bn aluminium privatisation after foreign investors pulled out last month. Unions said this week they would not approve any changes in the sales contract proposed by the government to accommodate investor concerns.

Investors are pressing the government to shut down some production lines, which would make hundreds of workers redundant, said Estilto Garcia, who heads one of the aluminium corporation's four unions. In a document presented to President Rafael Caldera, the unions called for the resignation of key company officials and the head of the CNG holding company, blaming them for the deterioration of the production plants, and the failed privatisation.

The country's largest party, AD, also said responsibility for the failure would have to be established before it would approve changes to the contract. Raymond Colitt, Caracas

ARGENTINE TELEPHONES

Band sales delayed in court

Plans to sell the concessions for two personal communication system (PCS) bands in the greater Buenos Aires area have once again been delayed in the Argentine courts.

In a new twist after more than six months of court delays, the Canadian company Telcel paid US\$1m to the court on Monday to guarantee that its successful appeal against the terms of the telephone tender would freeze the sale process once more.

The company had appealed against a modification to the terms of the offering which allowed the country's two basic telephone operators, Telefonica Argentina and Telecom, along with a third provincial cellular phone company, Compañia de Telecomunicaciones del Interior (CTI), to better any other offer in a second round of bidding.

The government said it would appeal against the latest court decision. Both Telecom and Telefonica Argentina, which share a monopoly over the country's basic telephone service, were originally banned from bidding when the tender was first floated in May 1997. Andrea Campbell, Buenos Aires

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ASIA-PACIFIC

NEWS DIGEST

REGIONAL SECURITY

Japanese-US defence support agreement signed

Madeline Albright, US secretary of state, who is visiting Japan, and Keizo Obuchi, Japanese foreign minister, yesterday signed a logistical support agreement to expand Japan's assistance to US forces in emergencies in areas surrounding Japan. The agreement was signed as the Japanese government submitted legislation to the Diet to implement revised US-Japan security guidelines. The guidelines allow for increased Japanese support for US forces in the region. The move came after the ruling Liberal Democratic party forced through cabinet approval of the legislation in spite of strong opposition from the Social Democratic party, the junior member of the governing coalition.

The guidelines, agreed last September, commits Japan to an expanded role in regional security, including enforcing naval blockades, taking part in minesweeping operations and providing US military access to domestic facilities.

Ms Albright hailed the US-Japan relationship as "the cornerstone of regional stability". Mr Obuchi emphasised the need for greater Japanese participation in regional security. Ichihiko Nakamoto, Tokyo

HONG KONG BRANCH OF CITIC

Chinese banker detained

A former director of a flagship Chinese bank in Hong Kong has been detained in Beijing concerning allegations of violating Chinese law, the company said yesterday. Cai Zhongzhi, chief executive of Citic Ka Wah Bank, gave no further details of the detention of Jin Deqin and said the incident had no material effect on the company's operations. Mr Jin had resigned earlier this month. Citic Ka Wah Bank is the Hong Kong financial arm of Citic, the investment vehicle which is controlled by China's state council. It is thought to be near agreement to merge with Citic Industrial Bank, the commercial banking arm of Citic. John Ridding, Hong Kong

INDIAN MISSILE

Russia denies nuclear help

Russian officials yesterday forcefully denied reports that Moscow was helping India build a sea-launched ballistic missile that could fire a nuclear warhead into the heart of Pakistan. "There has been no co-operation between Russia and India in creating missile systems for India," Valery Nesterushkin, a foreign ministry spokesman, said in a radio interview. Mr Nesterushkin said Russia was abiding by all its international obligations with regard to the non-proliferation of missile technology. "We have not taken any steps contrary to the obligations which Russia has assumed with regard to missile technology," he said. According to a story in the New York Times this week, Russian assistance to India in building the missile has been offered over the past three years, contrary to Moscow's promises to the US. Chrysetta Freeland, Moscow and Mark Nicholson, New Delhi

FINANCIAL DECREE

Thailand acts on economy

Thailand's cabinet yesterday approved four emergency decrees aimed at improving the country's liquidity situation, attract more foreign capital and potentially lower interest rates later this year. The first decree raises the government's foreign borrowing limit to \$7.2bn paving the way for a global bond offering expected to be worth between \$1bn and \$1.5bn to be launched in the next two months.

The second decree allows the ministry of finance to issue bonds which will over time restructure the debts of the central bank's Financial Institutions Development Fund, which spent or potentially committed more than \$1,000bn in bailing out troubled financial institutions.

The third decree modifies bankruptcy procedures for debtors to the 56 finance companies which were shut down late last year. The Thai government is auctioning the assets of these companies and many investors have been reluctant to bid because of cumbersome bankruptcy laws.

The fourth decree allows the government-owned Asset Management Corporation, which will take over finance company assets that are unsold at auction, to raise additional capital. These decrees are effective immediately but will be sent to parliament for approval in a special session beginning on May 13. Ted Bardecks, Bangkok

JOBLESS DATA BOND MARKET AND SHARES HIT AS RETAIL AND PRODUCTION FIGURES ADD TO GLOOM

Japanese unemployment rate soars

By Paul Abrahams and Quentin Peel in Tokyo

Japan's jobless rate jumped last month to its highest level since records began in 1953. The higher than expected 3.9 per cent for March was up from 3.6 per cent in February. The figure, with falls in retail sales and industrial production, hit the bond market and further subdued the stock market. Shares were already down

on disappointment at the lack of permanent income tax cuts in the economic stimulus package announced last week. The benchmark Nikkei 225 index fell 1.6 per cent to 15,395, its lowest level since mid-January.

However, Eisuke Sakakibara, the country's vice-finance minister for international affairs, said that Japan's crisis was over. He rejected outright suggestions that the government's most

recent measures would be insufficient to revive the flagging economy.

He conceded that the industrial production data, retail sales figures and record unemployment looked troubling. But he insisted: "We will have some bad months to come. But things will turn up. The worst thing to do is panic."

Fear of unemployment fed its way into retail sales, which fell an annual 13.8 per

cent in March, although month-on-month seasonally adjusted figures rose 0.3 per cent. It was the first double-digit fall recorded since data started being compiled in 1971. The Ministry of International Trade and Industry said year-on-year comparisons had been distorted by a rush in March last year to avoid a sales tax increase on April 1.

Faced with falling sales and substantial inventories,

manufacturers cut production 1.9 per cent in March. Inventories fell 0.1 per cent year on year. However, MITI warned not to read too much into the decline, adding that high levels of stocks remained a big problem.

The market's perception of weak Japanese economic prospects fed through to the government bond market. The yield on the benchmark 10-year bond fell to a record low of 1.455 per cent.

Optimist tries to restore confidence in Japan

Gillian Tett meets the man entrusted with marketing Tokyo's economic strategy

Eisuke Sakakibara, Japan's vice-minister of finance for international affairs, says he is an optimist by nature. It is just as well.

This week he embarks on a challenging marketing exercise to convince the rest of the world that Japan's government can stage off the risk of a serious economic slump.

"The worst thing to do now is to panic," he said yesterday, before flying to Geneva to meet other world leaders at the annual Asian Development Bank meeting. "What is most important at the moment is to restore confidence in Japan."

It will be a hard sell. Yesterday more gloomy economic data tumbled out: unemployment hit a record of 3.9 per cent. Massive intervention by the Bank of Japan this month has barely stemmed the yen's recent fall, much to the fury of Japan's trading partners. A flashing orange board in Mr Sakakibara's untidy room at the Ministry of Finance yesterday showed that the yen was hovering around ¥131.5 against the dollar.

But the bitterest blow this week - and the trigger for Sakakibara's marketing mission - has been the financial markets' lukewarm reaction to the details of the govern-

ment's latest stimulus package, worth over ¥16,000bn (\$123bn), that was announced last week.

Since the package was announced the Nikkei 225, the key stock market indicator, has fallen 2.3 per cent. Many foreign investors are disappointed by the ¥4,000bn temporary tax cuts in the package. And there is concern that infrastructure spending will simply be spent on wasteful projects - and consequently have little lasting impact.

Mr Sakakibara denies this. Instead, the message he will be taking to the ADB, and a Group of Seven meeting after that, is that the package will boost economic growth this year by around 2 percentage points and will avert any downturn.

"There is a real misunderstanding among European and US investors about the nature of Japanese investment," he argues. "You shouldn't mix up short term stimulus package with medium-term reform... the package is huge. It will work."

His argument partly stems from a belief that tax cuts are ineffective at present, permanent or not. Though his empty bottles of exclusive Chateau Mouton Rothschild in his office, he believes that most Japanese households are now so cau-



Sakakibara: "The worst thing to do now is panic" Reuters

tious that out of each ¥1 income tax cut that is given, only ¥0.5 will in fact be spent.

Public infrastructure investment, by contrast, is still very effective in boosting demand: for every ¥1 spent on public investment, some ¥1.3 worth of activity is generated, Mr Sakakibara estimates. Just employing construction workers will help growth, irrespective of the nature of the construction project.

"Even if you just dig a

hole in the ground now you can still get a multiplier effect," he argues, with Keynesian passion. "I understand the efficiency argument but it is quite a different matter from the question of stimulating the economy."

He adds, joking that "after all, the biggest way you can boost an economy is by starting a war. That's the biggest waste."

Mr Sakakibara also has little sympathy for foreign critics who suggest that a weaker yen would provide a

better way to solve Japan's economic problem. A weaker yen would not help many exporters.

Although he recognises that Japanese exporters are "extremely competitive" because of the weak yen, he argues that further falls would not help the economy at large because it would not deliver a significant boost to overseas sales. Further export advantage would be offset by the danger that a falling yen would encourage a "sell Japan mentality" in which investors shunned the currency, stock market and bond market all at once.

Looser monetary policy also offers little option, given the current low long-term market rates of 1.455 per cent. "These are crazy levels... they imply people think the economy will collapse."

This, he insists, is wrong - however gloomy the current data. "Conditions in the economy were really bad in the first quarter of 1998 and continued into April but I think we are now at the bottom... The Japan crisis is over."

Will the outside world believe his message? Certainly many observers might interpret such a determination to appear optimistic as a sign of panic rather than confidence. But Mr Sakakibara is determined to spread the word. "I am not worried," he says.

ASIAN DEVELOPMENT BANK REPORT SAYS ORISSA COMES THE CLOSEST TO INDUSTRIAL COUNTRY BEST PRACTICE

Indian state power regulator praised

By Peter Montagnon, Asia Editor in Geneva

The Indian state of Orissa has scored top marks for its regulation of the electricity sector in a survey of Asian utility regulation carried out by the Asian Development Bank and made public at its annual meeting in Geneva.

Together with India's federal regulation of the telecommunications, Orissa represents the closest to industrial country best practice among the institutions surveyed, the bank said. By

contrast the Indonesian gas and transport sectors, India's gas and Bangladesh's electricity regulation suffered from the most significant shortcomings.

The study reflects the ADB's view that the need for good governance and high standards of regulation has become more urgent since the east Asian economic crisis.

"Effective regulatory governance reduces the cost of capital and required return for private investors," said Jon Stern, the British econo-

mist who carried out the survey.

It is essential to support private investment at reasonable cost, especially in slower growing economies, he added. Transparency and predictability were particularly important attributes, while regulators which fared badly in the survey suffered from a lack of proper distinction between the roles of government, enterprises involved and the regulator.

With help from the World Bank, Orissa has spent the last few years restructuring its state electricity, so that a separate regulator has been created while the activities of generation and distribution have been separated.

Mr Dharendra Roy, a senior regulator from Orissa,

acknowledged that the process had been made easier by the relatively small amount of electricity consumed by poor rural consumers there compared with other Indian states. This had made it easier to propose realistic prices, although the restructuring had met strong opposition from the workforce of the old electricity board.

Orissa could not afford to give consumers absolute priority in designing its regulatory policy because it had to develop the sector and that meant satisfying investors, he said.

Sir Gordon Wu, chairman of Hong Kong-based Hopewell Holdings, added that investors needed a satisfactory margin to establish gen-

erating capacity. "If you don't have that margin, you won't be able to convince any international bank to finance your project," he told the launch seminar for the report.

China had understood this point and had now created a friendly climate for infrastructure investment. Other countries such as Vietnam, India and Pakistan were still reluctant to give adequate profits to foreign companies, he said.

Sir Gordon complained bitterly about the failure of the Thai government to set a clear tariff structure and provide land for the Bangkok mass transit project. Hopewell had no alternative but to take the Thai government to court, he said.

Delhi to call tenders for 15 'mega' power projects

By Mark Nicholson in New Delhi

India intends to call for tenders for 15 "mega" private power projects within the current fiscal year, to install new generating capacity of up to 75,000MW. P.R. Kumaraswamy, power minister in the Bharatiya Janata party-led government, said yesterday.

The projects would be opened for competitive bids in a proposed package deal under which companies would bid for "shell companies" which, the minister said, would bundle together approval not only for a power project but also many of the environmental and technical clearances needed for building the plant.

He gave no indication of whether the projects would be backed by any government financial guarantees. The initiative was designed to speed private investment in the power sector, a stated priority for the BJP-led government.

India suffers chronic power shortages and bureaucratic delays in implementing existing private power projects. "It is the only way I could ensure the mega-projects do not take a mega-time to clear," Mr Kumaraswamy told a business conference in Delhi.

The initiative follows the minister's recent ordinance



Vajpayee: 'Yes yes or no'

to set up a Central Electricity Regulatory Commission and regulatory commissions in each of India's states within three months.

These would chiefly be tariff-fixing bodies, taking supplies from the state electricity boards (SEBs), the main generators and purchasers of power in Indian states.

Orissa and Haryana have independently passed legislation to install regulatory agencies, as part of a broader effort to privatise and restructure the state utilities. Andhra Pradesh is introducing similar legislation.

Private investment into

Indian power has been hampered by the inability of loss-making SEBs to afford privately-produced power. Most SEBs incur heavy losses by subsidising power for farmers for political reasons.

Mr Kumaraswamy said the proposed 15 "mega-projects", which the government would first identify, would be sited at coal pit heads or on the coast to minimise fuel transport costs.

Under the "shell company" package, bidders would receive pre-arranged site, environmental and fuel supply approvals and would require "no further clearance", merely financing.

Existing private power projects, started under a six-year-old private power policy, have in almost all cases fallen foul of complex state and central government review and approvals procedures.

Atal Behari Vajpayee, BJP prime minister, told the same conference his government would "soon" formulate "transparent, non-discriminatory and non-discretionary" policies governing foreign investment. The Foreign Investment Promotion Board, which vets foreign investment in some sectors, would be able to give a "firm yes or no" to all proposals within 60 days.

Indonesia's smoke darkens view from Brunei

The sultanate is at the mercy of shifting winds. Sheila McNulty reports

A dawn break over the towering marble and granite mosque in Bandar Seri Begawan, the capital of Brunei, only the faintest trace of jasmine manages to push its way from the landscaped gardens through the heavy stench of forest fires.

The gold dome's brilliance is cloaked in smoke. The stained glass windows are dark without morning light to pass through them. It has been this way for much of the past two months as winds have fanned smoke toward the sultanate from peat and forest fires lit by farmers in Indonesia.

Although some fires, which are to clear land for plantations and development, originate in Malaysia and, to a much smaller extent Brunei, they are negligible in comparison.

Yet these two countries, along with Singapore, are at the mercy of the shifting winds. The thick smoke and fire they bring with them not only threaten vast tracts of tropical rainforest but also endangered species, such as the orangutan, said to be found only on the island of Borneo on which Brunei rests and Indonesia's northern Sumatra.

Doctors recommend that the most fragile humans - the young, old, pregnant and those with respiratory problems - leave for cleaner air. Nobody knows precisely what months of inhaling the thick soot is doing to the people of east Asia. But most cannot afford to surrender their lives in the region for months on end elsewhere to escape the smog. It is expected to stay through October until enough rain can soak through the metres-thick smoldering peat.

Malaysia's greatest fear is that the soot will darken what is becoming known as its coming-out party: the Commonwealth Games, for which it has poured its soul into preparing grand stadiums, trains, and an impressive new airport.

Asian leaders are notorious for staying out of each other's affairs. But in this case there is no doubt their will is being tested. Although they will not say so openly, everyone wants Indonesia to do more to stop the annual rite of burning vast tracts of land at the region's expense.

The impact over the past two years has been aggravated by El Niño, which has held back the rains that in past years extinguished the flames before they did this much damage.

The problem is trying for Brunei, where the discovery of oil has made the sultan one of the richest men in the world. He can afford to do just about anything for his 260,000 subjects, except keep Indonesian farmers from lighting fires that blanket Brunei with smoke and even sully the view from the palace.

Many days, Bruneians who like to run on the track across the most from the palace or play golf on nearby greens say they are forced to stay indoors.

In the meantime, Brunei has had to shut its airport and schools on especially bad days. Government offices now open and close later in the day to avoid the worst of the smog, which settles in the capital overnight before often drifting to sea or burning off as the day wears on. All this has cut into productivity, as sick days mount, and hurt business, as many prefer to stay at home.

The entire population has been given face masks, though some prefer washcloths and colourful kerchiefs. And the authorities publish a daily average of the level of pollutants.

Some days, David Knight, the chief executive officer at Standard Chartered in Brunei, cannot see the street from his window for all the smog. "It's a bit of a big experiment as nobody knows what it does," he says. And it is one to which he does not want to expose his two boys. Mr Knight sent them to his parents in Cornwall. "At least I've got options. Some of the locals don't have any options."

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Madagascar annuls share issue

Maldives pact in doubt

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OECD MEETING SWITZERLAND AND LUXEMBOURG REFUSE TO JOIN PROPOSED CRACKDOWN

Drive to stamp out tax havens hits snag

By Guy de Jongh in Paris

Switzerland and Luxembourg have refused to join other industrialised countries in agreeing to launch a seven-year drive to stamp out tax havens and policies which unfairly distort international fiscal competition.

Switzerland said it had considered using its veto to block a report by the 29-member Organisation for Economic Co-operation and Development on harmful tax competition, which it called partial and unbalanced.

But an OECD official said a list of tax havens at which

the crackdown was aimed was unlikely to include Switzerland or Luxembourg when it is published. "Islands in the sun" were more likely to be named, said Jeffrey Owens, who heads the project.

"What is \$250bn doing in the Dutch Antilles?" Mr Owens said at a briefing on the report.

It was not clear whether Switzerland and Luxembourg would participate in further work on the project in the OECD, which has set a series of deadlines for adoption by its members of measures to prevent economies from using artificially



low effective tax rates to attract international capital and business activities. Mr Owens called it an "historic agreement". He said there had been a "dramatic increase" in the flow of funds into tax havens in recent years, which was depriving governments of legitimate tax revenues, undermining the integrity of their tax systems and threatening their fiscal sovereignty.

eighty. OECD governments have agreed to publish the list of tax havens next year, and act to ensure that any political or economic links with them, such as tax treaties, did not promote harmful tax competition.

The OECD has not set precise criteria for defining tax havens.

It says their characteristics include imposition of no or low effective tax rates, preferential tax treatment of offshore income and capital, lack of transparency and failure to exchange tax information with other governments. OECD governments have agreed to refrain from

further policies which could cause harmful tax competition.

They have allowed themselves two years to end any irregularities and another three years to enact necessary legislation. Companies will be given a further two years to align their tax policies with the OECD recommendations.

Mr Owens said the OECD did not aim to end all forms of international tax competition, but only those which damaged economic activity by unfairly distorting financial flows.

Switzerland said it accepted that tax competi-

tion could be harmful. But the OECD report was too narrow, ignored genuine reasons for the diversity of international tax regimes and made recommendations which conflicted with Swiss law.

Luxembourg accused the OECD of trying to abolish bank secrecy and said it could not accept that the underlying philosophy set out in the report should be extended to bank secrecy.

"Harmful tax competition, an emerging global issue. OECD Publications, 2 rue André Pascal, 75775 Paris Cedex 16. Tel: 331-45 24 82 00

OECD WORRY OVER BIG BANKNOTES

Euro notes prompt money launder fear

By Guy de Jongh in Paris

The future European Central Bank may need to restrict the issue of large-denomination euro banknotes, to prevent them being used to launder money, Philippe Maystadt, Belgium's finance minister, said yesterday.

Mr Maystadt, who chaired a ministerial meeting in Paris which decided to expand international efforts to combat money laundering, said close co-operation between governments and financial institutions would be needed to ensure that introduction of the euro did not aggravate the problem.

At Germany's insistence, the single currency will be available in notes with a value of up to 500 euros, which Mr Maystadt called "exceptionally high". Law enforcement experts fear the biggest notes could be used by drug-pushers and other criminals to move large sums of money around the world undetected.

"It seems to me that this might be a reason why the ECB might decide to print rather a low volume of large-denomination notes," the Belgian minister said. "I am certain the ECB will take this into consideration."

He expected the new central bank to consult closely with governments and law enforcement authorities on the issue. However, he said the final decision was up to the ECB, and European gov-

ernments planned no special additional measures to ensure that the switch to the euro did not provide increased opportunities for money laundering.

International efforts to combat money laundering have been co-ordinated since 1989 by a taskforce established by G7 government leaders. The taskforce, whose members include 26 governments, the European Commission and the Gulf Co-operation Council, has adopted 40 recommendations designed to crack down on illegal financial transactions.

Ministers decided yesterday to step up the drive by seeking to expand the taskforce's membership, establish regional co-ordination bodies and forge closer links with the World Bank, the International Monetary Fund and other international institutions. They said their goal was to create a "worldwide anti-money-laundering network."

Mario Monti, Europe's internal market commissioner, told the ministers that the readiness of central and eastern European countries to stop up their fight against money laundering and subscribe to the taskforce's recommendations would be a "key condition" of their accession to the European Union.

Jean Spreutels, taskforce chairman, said the anti-laundering drive would focus on east Europe.

OECD MINISTERS FAIL TO SET DATE FOR MAI AGREEMENT AFTER MISSING TWO DEADLINES

Push to keep alive effort to draft global investment rules

By Guy de Jongh in Paris

Leading industrialised countries yesterday decided to keep alive a controversial effort to draft global rules for the treatment of international investment. But they set no date for reaching an agreement, after failing to meet two previous deadlines.

Ministers of the 29-member Organisation for Economic Co-operation and Development agreed to "a period of assessment and further consultation" before holding the next session of negotiations on a Multilateral Agreement on Investment (MAI).

The compromise decision was reached after fierce disagreements between OECD member governments over the future of the two-and-a-half-year-old talks. These were due to be concluded a year ago, but have made only slow progress to their goals of liberalising and improving protection of foreign investment.

The MAI has been bitterly attacked by a coalition of environmentalist groups and trade unions in many countries. They claim the planned accord would free multinational companies to ride roughshod over environmental protection rules and

lower labour standards. Donald Johnston, OECD secretary-general, denied the six-month consultation period amounted to a delay, and said it would enable governments to explain the MAI to domestic public opinion. He forecast the talks would be successfully concluded, but would not say when.

Pierre Moscovici, France's European affairs minister, said the OECD meeting had agreed on a "pause" in the negotiations, which would enable them to resume on a new basis.

France had sought to have the talks formally suspended, which could

effectively have killed them. Some countries favoured the idea of setting a new deadline for an agreement, but the US opposed the idea. Charlene Barshefsky, US trade representative, told ministers it would not be credible to set another deadline, after missing earlier ones.

The ministers agreed to support efforts by the World Trade Organisation to draft investment rules. The OECD's past insistence that it, rather than the WTO, should take the lead in negotiating rules has created much friction between the two organisations.



Donald Johnston forecast successful conclusion to talks but declined to say when

NEWS DIGEST

INVESTMENT BY WORLD'S WEALTHY

Rich fail to make the most of their capital

The world's wealthiest individuals became wealthier in 1997 although their conservative investment habits meant that they failed to fully benefit from stock market successes.

A study by Gemini Consulting and Merrill Lynch, the US investment bank, published yesterday estimates that individuals with investable assets of \$1m or more now control more than \$17,400bn around the world, a rise of 5 per cent since 1996. At the same time the FT/SE World equity index rose 13.2 per cent.

Steven Beck, managing director of Gemini, blamed the traditional risk-aversion of high net worth individuals who invest heavily in low-yield assets such as bonds or property. "You could argue that they could have put all their money in index funds," he said. "But a huge amount of these assets are invested with the primary goal of wealth preservation."

However, the report's authors argue that a new breed of investor will lead to a change in investing habits with much more interest in high yielding assets such as equities. "We are now seeing a much more demanding, more active, more performance-sensitive class," he said.

Jane Martinson, Investment Correspondent

MIDDLE EAST PEACE PROCESS

Mubarak plea to Netanyahu

Hosni Mubarak, the Egyptian president, yesterday urged Israel to accept a US proposal for a limited Israeli military withdrawal from Palestinian areas, amid intense diplomatic activity viewed by Arab states as the last chance to save the Middle East peace process before a mid-June deadline.

At their first meeting in 11 months, Mr Mubarak told Benjamin Netanyahu, the Israeli prime minister, that acceptance of the US proposal of an Israeli withdrawal from 13.1 per cent of West Bank land would allow both sides to move towards meeting Israeli demands for discussions on the final status of Jerusalem.

Yasser Arafat, president of the Palestinian Authority, has signalled his acceptance of the proposal. But Mr Netanyahu yesterday portrayed this acceptance, which is far below Palestinian expectations and does not meet the scale to which Israel has already agreed, as a sign of Palestinian intransigence. Mark Huband, Cairo

KAZAKHSTAN SECURITIES

Watchdog annuls share issues

Kazakhstan's securities watchdog has annulled share issues by 29 local companies as an example to thousands of others which have not met reporting requirements, an official said yesterday.

More than 5,000 privatised Kazakh companies had registered issues of their shares, but 2,277 of them had not reported issue results and could face similar punishment, National Securities Commission executive director Galina Shalimbayeva told a news conference.

The 29 companies would have to return the funds raised to investors and restart the issue process from scratch, she said. Reuters, Almaty

IRAQ WEAPONS INSPECTIONS

UN palaces pact in doubt

Iraq said yesterday it would limit inspections of its presidential palaces, calling into question a crucial element of a United Nations accord which two months ago averted US military strikes. Mohammed al-Sahaf, Iraqi foreign minister, said an initial visit to the presidential palaces had taken place, and proved "British and American allegations false, despicable and baseless".

Kofi Annan, UN secretary-general, two months ago struck an accord winning access to the eight presidential palaces, an accord which placed off limits by the Iraqi authorities. He said previously placed off limits by the Iraqi authorities. He said the agreement, which provided for diplomats to accompany disarmament experts on their inspections, allowed for repeat visits to the palaces. But Mr al-Sahaf yesterday questioned the repeat inspections. "If they need for any reason, maybe there would be a subsequent visit but that's all," he said. Laura Silber, New York

Israel scraps currency curbs

By Judy Dempsey and Avi Meichlis in Jerusalem

Israel yesterday removed all curbs on foreign currency transactions for households and the business sector, paving the way for full convertibility of the currency.

The move, timed to coincide with Israel's 50th anniversary, followed disagreement between the Bank of Israel (BOI) and the finance ministry over lifting remaining curbs on foreigners trading in options and futures.

The finance ministry overruled the BOI by insisting derivatives transactions by non-residents remain limited to one month, fearing it would come under speculative attack. Jacob Frenkel,



BOI governor, said curbs would be lifted after market reaction to the other measures was assessed.

This may come sooner than later as the shekel yesterday entered the Eurobond market. Merrill Lynch and the International Finance Corporation, through Deutsche Bank, issued shekel-denominated Eurobonds of Shk175m (\$46.8m) and Shk200m respectively, both one-year bonds.

The measures are aimed at integrating Israel into the world economy at a time the country is pursuing tight monetary and fiscal policies.

The moves allow individuals to invest abroad freely, with the right to buy land and real estate. Individuals and companies will be able to manage bank accounts abroad. Curbs on taking shekels out of Israel and receiving shekels from non-residents are scrapped.

But some restrictions remain, affecting direct investments abroad of Israeli institutional investors. Provident or savings funds, pension funds and insurance companies will still be limited to investing up to 5 per cent of assets abroad.

Capital markets, Page 26; Faultlines at 50, Page 15

WEEKEND FT

How to spend it



moon gazing, roof raising, space saving

From shanty to sanctuary: the rebirth of the Chinese courtyard. Around the world for £40 a day: the anti-cruise set on why it's great with freight. In the next how to spend it magazine, free with the Weekend FT on Saturday May 2.

FINANCIAL TIMES

No FT, no comment.

WORLD TRADE

US direct sales groups in fightback

By James Kyngie in Beijing

US direct selling companies such as Amway and Avon of the US, banned from conducting direct sales in China, are modifying their sales strategies in an effort to salvage part of their core business in the world's biggest potential market.

The issue had become an important area of trade friction between the US and China as both sides prepare for a June summit between President Clinton and his Chinese counterpart, Jiang Zemin.

The US is anxious to see Chinese concessions on the blanket ban, not only because direct selling companies are backed by a strong US lobby. The licence to sell door-to-door in China is regarded as a key issue in Washington, partly because such a strategy has proven effective in circumventing obstructive distribution systems in other Asian nations, western diplomats said.

"This issue is bigger than just Amway and Avon," said one commentator. "Cars are sold door-to-door in Japan, the same could happen in China."

China said last week that its consumers were not mature enough for direct selling and ordered the practice to cease from October 31. They cited a proliferation of local con artists who sell all manner of phony products to the unsuspecting as a justification for the ban.

Chinese officials, though, said that if the US direct sellers turned their distribution centres into normal shops,

they could remain in China. The approach of Amway and Avon so far appears to be to try to accommodate the Chinese demand but also retain the right to continue some direct selling.

Richard Holwill, director of international government relations at Amway, said there was a possibility that the public may be allowed to purchase products at their distribution centres, thereby turning them into retail outlets. But, Amway insists, it should also be allowed to sell products through a network of door-to-door distributors.

The company has already stopped taking on new distributors in China and intends to look after the interests of its existing distributors, no matter what the outcome of talks between Chinese trade officials and the US direct selling companies. "We fully intend to treat them honourably and see that they are not abandoned," Mr Holwill said.

Victor Bandet, a spokesman for Avon in the US, said his company had a number of options on how to proceed. Some of these might be to restructure sales to more closely resemble operations in Malaysia and Taiwan. In Malaysia, for example, Avon has "beauty boutiques" open to the public but also runs door-to-door sales representatives who pick up their goods at these boutiques.

US companies such as Amway, Avon and Mary Kay have invested about \$120m in China, mainly in manufacturing plants, and provide employment to about 2m Chinese.

HELMS-BURTON LAW EU ATTEMPT TO OVERCOME DIFFERENCES WITH US

Brittan in drive to settle anti-Cuba dispute

By Guy de Jouvenel in Paris

The US and the European Union are to launch a concerted drive to settle by next month their bitter dispute over the US Helms-Burton anti-Cuba legislation, after narrowing some of the differences.

Stuart Eizenstat, US under-secretary of state, and Sir Leon Brittan, Europe's trade commissioner, have agreed to intensify year-old negotiations on the dispute, in the hope of agreeing at least an outline settlement

before President Bill Clinton meets EU leaders in Birmingham on May 15.

Sir Leon will brief EU member governments' permanent representatives in Brussels tomorrow on the progress made and will seek their reactions to drafts of a text which could form the basis for a settlement. He will also identify areas on which compromises have yet to be reached.

Helms-Burton, which took effect two years ago, aims to penalise foreign investors which deal in assets expropriated by the Castro regime. Along with the D'Amato act, which targets investors in the energy industries of Iran and Libya, it has been condemned by the EU as a US attempt to impose its laws on the rest of the world.

Mr Clinton has repeatedly waived Title III of Helms-Burton, which authorises private US court cases against foreign investors in Cuba. But the EU also wants the US to amend Title IV of the law, which allows the State Department to refuse

entry visas to executives and shareholders of investing companies.

The Clinton administration insists it will ask Congress to amend the law only if the EU agrees to "effective and enforceable" arrangements to deal with international asset expropriations.

The two sides have agreed, as part of a settlement, to establish a registry of expropriations which fall foul of international law and to take action to deter government investment guarantee agencies from helping to finance

the acquisition of illegally confiscated assets.

The two sides still differ, however, over exactly what assets the arrangement should cover. The EU wants to limit its coverage of past expropriations, and hopes the US will accept relatively modest action against them, in return for an EU pledge to take tougher action against future asset confiscations.

The EU, meanwhile, is pressing the US to forswear future extra-territorial legislation, intended to impose its policies on other countries.

Brussels now recognises that the US constitution prevents the administration from giving a cast-iron guarantee, and says it is ready to accept a strong "political commitment" to try to avoid such legislation in the future.

One element of such a commitment being discussed is an "early warning system," which would require the administration to alert Brussels to moves in Congress to draft extra-territorial legislation and trigger consultations designed to avert a transatlantic dispute.

Oilmen start exploration off the Falklands

By Robert Corzine on the Borey Dolphin, South Atlantic

Work began yesterday on the first wildcat oil exploration rig in the remote waters of the South Atlantic, off the Falkland Islands.

The start of full scale exploration operations on board the drilling rig Borey Dolphin, about 160 nautical miles north of Port Stanley, the island's capital, marks the beginning of a concerted effort by four international

oil consortia to determine if one of the world's most remote island chains has the potential to become a major oil producer.

The possibility that substantial amounts of oil may be found off the Falklands has complicated relations between Britain and Argentina, which also claims sovereignty over the island. Last week the Argentine Senate unanimously passed a bill threatening oil companies operating in the Falk-

lands with sanctions. Buenos Aires also wants them to pay a royalty to Argentina should they discover and eventually produce oil from the region.

Amerada Hess, the US company operating the first well, intends to ignore the Argentine threat. "We won't pay the Argentine royalty if we are successful," said Andy Morrison, the company's head of international operations.

The area in which Amerada Hess is operating is north of the main inhabited island and falls outside a proposed joint UK-Argentine exploration area to the east of the island. Negotiations are said to be bogged down over technical issues.

Although the odds are 10-1 against the Borey Dolphin making a commercial discovery with the first wildcat well, Mr Morrison says there are encouraging signs that hydrocarbons may be

found. "The possible oil-bearing structures are obvious," he said yesterday.

Geologists believe that occasional oil slicks in the remote area may point to natural oil seepages from the seabed.

Mr Morrison said the speculation that the Falklands may prove to be as prolific as the North Sea is unfounded. "Physically it cannot be another North Sea," he said. "The sedimentary basin is simply not big

enough."

But Amerada Hess believes their exploration block could hold between 200m and 400m barrels of recoverable oil. That could be worth as much as \$3bn even at today's relatively depressed oil price, and would certainly be more than enough to transform the fortunes of the 2,300 Falkland Islanders who are anxiously awaiting the results of the first well.

NEWS DIGEST

AERO ENGINE CONTRACT

IAE wins \$2.3bn order from Latin America

International Aero Engines, the consortium which includes Rolls-Royce of the UK and Pratt & Whitney of the US, has won a \$2.3bn order - its biggest ever - from a group of Latin American airlines.

The order is for engines for up to 179 narrow-bodied Airbus aircraft. The aircraft were ordered earlier this year by Lan-Chile, the Chilean flag carrier, Tam of Brazil and Taca, a group of five Central American airlines.

The airlines, negotiating jointly, placed 90 firm orders and 89 options on single-aisle twinjet A319 and A320 aircraft. The order was the second biggest Airbus had ever won and marked a significant victory in a region previously dominated by Boeing of the US.

The engines for the aircraft will be assembled at Rolls-Royce's factory in Derby. Delivery will begin next year. IAE, whose partners also include MTU-Daimler Benz of Germany and the Japanese Aero Engine Corporation, has previously sold engines to Taca, but not to Lan-Chile or Tam.

Barry Eccleston, IAE's chief executive, said: "The industry has long recognised Latin America as an area of great potential growth."

This is a significant development which turns that into a reality," IAE said that its engines now powered 98 per cent of Airbus single aisle aircraft ordered in Latin America. Michael Skapinker, Aerospace Correspondent

DUBLIN TRANSPORT

Light railway to be approved

The Irish government is expected to give the go-ahead next week for a 12.5km (\$323m) light rail system for Dublin, the capital. Mary O'Rourke, the public enterprise minister, released a consultants' report yesterday which opts for the above ground system, estimated to be £100m cheaper than an underground option. The project would link the industrial area of Tallaght in the south of the city with the city centre. If approved at cabinet next Tuesday, the overground scheme is set to be partly financed by £114m of regional aid from the European Union. However, if Dublin chooses the underground option, European Commission officials say this will not leave enough time for Brussels to consider a new request for aid, and the money would be allocated to another transport project. John Murray Brown, Dublin

CANADIAN FILM DISTRIBUTION

EU seeks WTO disputes panel

The European Union is likely to request a formal dispute settlement panel at the World Trade Organisation over Canadian film distribution practices following the breakdown of consultations. Talks between the two sides have ended with no progress towards a settlement. The European Commission will be considering its response over the next few weeks.

The EU charges that Canada has unfairly blocked Polygram, the Dutch entertainment group, from distributing independent films in Canada. Under 1987 legislation, Canada only allows foreign companies to distribute films for which they have paid at least half the production costs. But the law exempted US film distributors already in the market before 1987, and these companies still control more than 80 per cent of Canada's film distribution. Canada, which heavily protects its cultural industries, says that the policy is compatible with WTO rules because it treats all new entrants to the market identically. Edward Alden, Toronto

CRUISE SHIPS

French yard wins order

Chantiers de l'Atlantique, a subsidiary of GEC Alsthom, has received an order for two cruise ships from Renaissance Cruises International. The two 350-cabin ships will join the four sister ships ordered by the shipowner over the past two years. The French shipyard has 11 cruise ships on its order books. International Staff, London



*A farm would never become a reality
for this family without the irrigation system;
the irrigation system would never become a reality
without electricity;
electricity might never become a reality
if not for the engineers of ABB.*

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مكتبة الامم المتحدة

uba dispute

Exporter confidence sinks to 18-year low

By Robert Chote,
Economics Editor

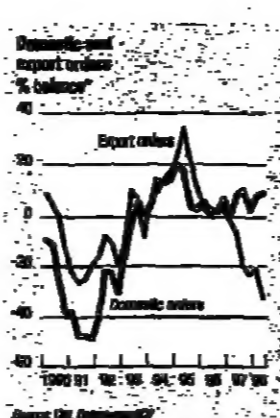
Confidence among exporters has dropped to an 18-year low as official figures show the UK is running its biggest trade deficit in goods since 1990.

The Confederation of British Industry, the UK's principal employers' organisation, pleaded with the Bank of England, the UK central bank, yesterday to signal that interest rates have reached their peak, as the CBI's latest survey showed export confidence among manufacturers collapsing.

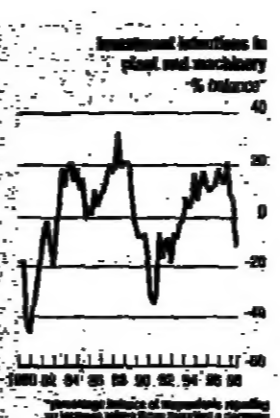
"The strong pound is hurting exporters badly, and this has now hit manufacturers' investment plans," said Sir Ross Buckland of the

CBI's economic affairs committee. But he took some comfort from the strength of domestic demand and sterling's recent fall. "We are facing a slowdown, but not necessarily a stop," he said.

The Office for National Statistics meanwhile announced that the trade deficit in goods and services almost tripled to £1.7bn (£2.83bn) between January and February, the largest since the series began in 1981. As tourists took advantage of the strong pound on holidays outside the UK, the country's surplus on trade in services shrank to a 22-month low of £500m. This left a deficit on trade in goods of £2.2bn, up from £1.1bn in January and the biggest since 1980.



Half the deterioration in February reflected erratic items and a fall in the surplus on trade in oil to a four-and-a-half year low. Excluding oil and erratics, the



trade gap rose above £2bn but still fell short of November's deficit.

In the trade deficit largely reflects higher imports. Excluding oil and erratics, imports rose 4.8 per cent in February while exports rose 0.8 per cent.

"Exporters appear to be cutting prices in an attempt to beat the strong pound and maintain competitiveness," said Dharshini David at HSBC Markets. "But there is a limit to how far exporters can cut prices, and hence we expect export volume growth to weaken in the coming months."

The CBI's latest quarterly industrial trends survey, carried out in late March and early April when the pound averaged DM3.07, showed export orders declining at their fastest rate since 1990. But domestic orders actually

picked up. This will be more reassuring to exporters than to the central bank, which wants domestic demand to slow.

Gordon Brown, chancellor of the exchequer, will be particularly concerned to see that manufacturers are shelving investment plans. Manufacturers are planning to reduce investment for the first time in five years.

The overall indicator of manufacturers' optimism also stands at its lowest since October 1992.

The pound dropped in the wake of the figures, but rebounded to close at DM2.995, up from Monday's close of DM2.968.

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MPs attack government's Emu strategy

By Liam Halligan,
Political Correspondent

The government's strategy for entering the single European currency yesterday came under attack from an influential committee of MPs. The attack came in spite of the committee's deep political divisions on Britain's prospective membership.

Any decision to join economic and monetary union should be taken on a "political and economic assessment of the balance of national advantage", said the Treasury committee of the House of Commons in a report.

Sir Teddy Taylor, a Conservative sceptic, said the tests were "just a means of buying some time until the circumstances are right to make this catastrophic judgment".

The committee's objections were rebuffed by Mr Brown, who used a speech to the British-American Business Council to reiterate the predominance of his original entry criteria. "An economic assessment of the advantages remains the decisive test as to whether we will enter," he said.

Committee members were also split on the merits of the mooted compromise over the Presidency of the European Central Bank.

Mr Radice said that, while formally sharing the position would be "illegal" under the terms of the Maastricht Treaty, "an informal agreement between rival candidates would be acceptable". Quentin Davies described the dispute between Wim Duisenberg, the German-backed Dutch banker, and Jean-Claude Trichet, governor of the Bank of France, as "a complete disaster" for the credibility of the single currency.

Supporting early entry, Quentin Davies, another Conservative member, said

the decision to join was "not mechanistic", and required "a range of issues to be considered, including the political costs of staying out".

Supporting Mr Davies, Ruth Kelly, a Labour member, said it was "naïve" to separate politics and economics, while urging Mr Brown to provide "greater clarity" on the details of his tests. Brian Sedgemore, another Labour Emu-supporter, accused Mr Brown of "introducing his five tests as a smokescreen to hide the difficulty of winning a referendum on the single currency".

Japanese maker of machine tools halts expansion

By Peter Marsh in Birmingham

Yamazaki Mazak of Japan, one of the world's biggest machine toolmakers, is putting on hold a large expansion at its European production base in England because of the high pound and economic turmoil in Asia.

Over the next year, the

company is switching some production to its Japanese plants to meet European demand, reducing the need for a 25 per cent increase in production from its Worcester operation announced 18 months ago.

Elmar Barr, head of Yamazaki's European arm, said at a machine tool industry exhibition in Birmingham

that the company's Japanese plants could supply the UK more cost-effectively because they had spare capacity. That was linked to demand that was lower than expected because of the region's economic difficulties. Also, the strength of the pound had made production from the UK less competitive than two years ago.

Nonetheless, production from Worcester, of which roughly 80 per cent is exported, is still likely to be 10 per cent higher this year in units compared with a year ago, due to the economic recovery in mainland Europe boosting demand for Yamazaki's machines.

Mr Barr also said his company had reduced the cost of

its UK operations to cope with some of the impact of the high pound through redesigning its machines and technological change.

Yamazaki operates one of Britain's biggest machine tool plants in Worcester employing 400 people and with output running at an estimated £90m (£150m) a year. It has been one of the

UK's biggest investors in machine tools in recent years.

Eighteen months ago, the company said it would increase production from Worcester from the current 130 machines per month to some 150 machines per month by about 2000. This is now expected to be put off until early next decade.



When electric current begins flowing into the coastal region of northern Peru, some of the local people may think it's nothing short of a miracle. Perhaps they won't be far wrong.

The Peruvian Energy Commission had been trying to bring power to this remote region for a long time. And they knew all too well the myriad problems inherent in a project of this magnitude.

Fortunately, the local firm heading the project, 'Aguaytia Energia del Peru SRL', found a company that could help provide an ingenious solution to this energy challenge: ABB.

It's a solution that will utilize natural gas located east of the Andes.

The gas will be pumped from the fields, processed, then piped to a 155 megawatt power plant.

Electricity from the plant will then be sent via a 400 kilometre power transmission line across the Andes to the coast, thereby supplying the area with the much needed energy from Peruvian resources.

It's the kind of solution only a team of dedicated individuals with multi-cultural perspectives, multi-disciplinary expertise and global and local orientation working together could create.

And, if for one particular group of Peruvian farmers, ABB's ingenious engineering qualifies as a miracle, that's OK with us.

INGENUITY AT WORK

ABB

Stock trading move 'worries institutions'

By George Graham,
Banking Editor

Institutional investors still want a "central counterparty" so they can trade shares anonymously, in spite of the London Stock Exchange's decision not to pursue this option.

In response to an exchange consultation document on possible changes to the workings of its electronic order book, several institutions are urging the exchange to think again about a central counterparty, which they believe would not only reduce trading costs but also give them full trading anonymity.

A central counterparty would stand in the middle of all transactions. Brokers and investors would settle up with the counterparty and not with each other.

At the moment, although orders are posted anonymously on the exchange's electronic order book, the identity of the buyer or seller is revealed to anyone who matches an order.

In addition, one large order may be filled by dozens of smaller ones and the investor has to pay settlement costs on each one.

A survey conducted by Tradepoint, the rival electronic market which uses a central counterparty, found that 85 per cent of institu-

tional investors considered a central counterparty to be important for the success of order-driven trading. Two thirds of them believed that having to disclose their trading intentions to a broker had a negative impact on the price they could achieve.

Stephen Wilson of Tradepoint said: "You can't have true anonymity if you don't have a central counterparty, and the lack of a central counterparty is becoming a real issue for the LSE."

The LSE argues that the estimated £20m (£33.40m) cost of changing the settlement system is not justified by the savings, and that carrying out such a radical change would be dangerous at a time when securities firms are preoccupied with getting their systems ready for the European single currency and for the year 2000.

Tradepoint has struggled to attract trading volume since it was set up in 1995 with the first electronic order book in the UK. Last year, the LSE introduced its own electronic order book.

However, volume has picked up in recent months with the addition of trades from inter-dealer brokers who have turned their back on the LSE system. Volumes averaged £70m a month in the first quarter of this year, 10 times the levels it was recording a year earlier.

Financial Times Surveys

Latin American Steel

Monday June 1

For further information, please contact: Michael Geach in New York
Tel: +1 212 745 1352 Fax: +1 212 686 8249
michael.geach@ft.com

FINANCIAL TIMES
No FT, no comment.

BRITAIN

US online book deal may open price war

By Alice Rawsthorn in London

Booksellers and publishers are braced for the onslaught of a US-style online price war following the arrival in the UK of Amazon, the fast-expanding US online bookseller.

Amazon has become one of the world's biggest online retailers by offering more than 2.5m titles at discounts of up to 40 per cent from its US base in Seattle. It established a UK base earlier this week by buying Bookpages,

the UK's second largest specialist Internet bookshop.

Simon Murdoch, managing director of Bookpages, says the company will continue to trade under its own name for the foreseeable future, but intends to adopt some of Amazon's trading practices immediately, including discounting.

"At the moment, we only discount about a hundred of our top-selling titles, whereas Amazon discounts 400,000," he says. "We'll start discounting across a far

wider range of titles, as Amazon does, but we have yet to decide exactly how many."

Most of the larger UK booksellers, including Waterstone's and Dillons, have been selling books by mail order from Internet sites since last year. There are also a number of specialist UK online booksellers, including Bookpages and the Internet Bookshop.

So far, there has been relatively limited discounting in the UK online book market,

in contrast to the US, where most of Amazon's competitors have emulated its policy of cutting the list price of US titles by between 20 per cent and 40 per cent.

The UK book trade has long feared a repetition of a US-style price war. Publishers and booksellers only recently recovered from the collapse of the net book agreement, which had prevented the discounting of newly published titles.

Amazon's arrival in the

UK, part of a European expansion programme that includes the acquisition of Telebook, Germany's biggest online specialist bookseller, could trigger the start of an Internet price war, which might then spread to conventional retail bookshops.

Mr Murdoch said Bookpages hoped to sell US titles as well as UK ones. However, it would not take a final decision until it had clarified whether this would infringe UK copyright law. Initially, Amazon's UK

operation will continue to trade as Bookpages, but eventually the US group is expected to introduce its own brand name to the UK. Amazon has registered the rights to use its name on the Internet in many countries, but it is not clear whether it owns Amazon.co.uk.

Amazon declined to comment on the issue. If it does not own the rights to Amazon.co.uk, it will have to negotiate to buy them from the registered owner.

HIGH TECHNOLOGY ENTREPRENEURS BACK INITIATIVE TO PROMOTE ENGLISH REGION CENTRED ON UNIVERSITY CITY

'Silicon Fen' aims at California

By Alan Cane in London

Cambridge-based entrepreneurs, venture capitalists and academics have established a company with the aim of promoting the East Anglia region of England, known for its fens or low-lying wetland, as a technology centre capable of competing with California's Silicon Valley.

The Cambridge Network, a limited company set up under the chairmanship of Professor Sir Alec Broers, vice-chancellor of Cambridge University, has raised £190,000 (£17,300) in three weeks to develop an Internet, or local electronic information system, a website and marketing initiatives.

Cambridge and its environs are known colloquially as "Silicon Fen" because of its wealth of electronics initiatives, but it has yet to produce a £1bn company. Influential investment analysts will be brought from the US to visit leading Cambridge companies and a speakers' programme is being arranged.

The principals of the Network, who include Hermann Hauser, founder of Acorn Computers, want to avoid the errors of the early 1980s when Bill Gates of Microsoft tried to interest Acorn, then a world leader in microcomputers, in the MS-DOS operating system and was politely shown the door. MS-

DOS and its successors now dominate personal computing. This year, Microsoft funded a Cambridge software laboratory.

The founding shareholders in the Cambridge Network are the Amadeus venture capital fund in which Microsoft has a major stake, Arthur Andersen, the leading accountancy firm, 3i, the venture capital group, Cambridge University, N.W. Brown, financial consultancy, and Analysys Group, a leading telecommunications consultancy.

They believe Cambridge and its surrounding area have, or can develop, high-technology equal to the best in the world but have been

held back by poor marketing and communications.

David Cleavelly, managing director of Analysys, said: "We need to focus attention on the potential of the region - it generates huge numbers of ideas but they are not always commercially exploited."

Each of the founding members has invested £15,000. Projects under consideration include the establishment of a School of Entrepreneurship.

Cambridge 20/20, a study sponsored by Alcatel, the French telecommunications manufacturer, but being carried out as part of the Network's programme, is examining ways that telecom-

munications can be used to promote the growth of high-technology industries while retaining Cambridge's historic character.

The 20/20 group includes Peter Radley, Alcatel's marketing director and Professor Marcial Echenique, a specialist in town planning. It suggests teleworking - substituting telephones for travel - and road pricing could significantly reduce traffic peaks.

The Cambridge Network group is determined to encompass most of East Anglia in its plans, pointing out that the whole population of Cambridgeshire is about 700,000 people, compared with 2.5m in Silicon Valley in the US.

Business power nestles amid Cambridge spires

City continues to boost its reputation as the academic world's premier fundraiser from industry, Simon Targett writes

Walking through Cambridge these days is like walking through a corporate hall of fame.

There, nestling between the medieval spires, is the Glaxo Institute of Applied Pharmacology, the Hitachi Centre for Communications Systems Research, and the Shell Department of Chemical Engineering.

The academics too wear the badge of corporatism: the Marks and Spencer professor of farm health, the Guinness professor of management studies, and the Price Waterhouse professor of financial accounting.

Soon there will be the Unilever centre for molecular sciences and the BP Institute - with titled professorships as well.

This deal, disclosed in the Financial Times, is the latest testimony to Cambridge's growing reputation as academic's premier fundraiser from industry.

Oxford was the first British university to attract more than £100m for research - raising £104m in 1995-96. But most of this came from government-backed research councils and charities, with only £5.6m from industry, according to figures from the

Higher Education Statistics Agency.

To compete, Cambridge, which raised only £35.5m for research, has turned to the major global companies, guided by Professor Sir Alec Broers, a former industrialist and vice-chancellor of the university since 1996. He says: "If you do leading research, and you want that research to be influential, you have to look for partners in the corporate world - you

The arrival of vast sums of money has raised questions about academic independence

just can't do it alone."

Cambridge always attracted industrial sponsorship. Fifty years ago, Shell gave £1.5m - some £20m in today's money - for a department of chemical engineering.

But, in the past two years, the university has struck a host of such spectacular deals - capped last year by

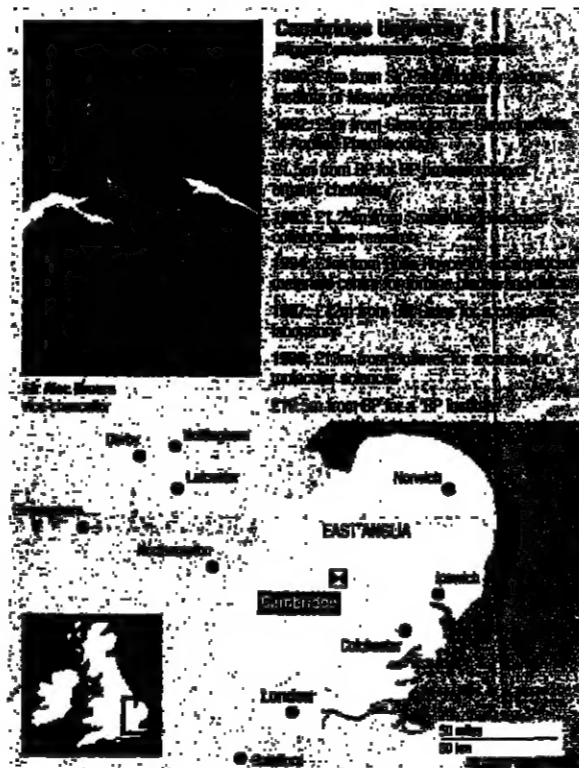
the £12m gift from Bill Gates, founder of Microsoft, for a computer laboratory.

Inevitably, the arrival of vast sums of money has raised questions about academic independence - a much-prized concept in the university - and the extent of so-called "chequebook research".

Sir Alec acknowledges that Cambridge is interested "if someone comes along and opens the chequebook", but he says the right balance must be struck as in any mutually beneficial partnership.

The latest deal, which brings £19.5m from BP and £13m from Unilever, has been negotiated with the assurance that Cambridge's academic freedom is preserved. "This is not a piece of contract research," says Andrew Mackenzie, BP's director of technology. Under the leadership of a new BP professor of petroleum sciences, the BP Institute will carry out "fundamental, basic research" which, because the building will be in Cambridge, will be given "a high intellectual visibility".

The Unilever centre, also run by a new professor, will, the company says, "bring to the finger tips of scientists



and researchers - anywhere in the world, and in a readily digestible form - everything that has ever been discovered within molecular sciences."

Nail Fitzgerald, Unilever's chairman, says: "This will promote a new openness in the distribution and management of knowledge in the world of science."

More super-deals are promised. Cambridge has a huge appetite for funds for new buildings - put at £15m a year for the next 30 years. And there is the science campus on the outskirts of the city, which is still only at the conceptual stage, but is visualised as Cambridge's answer to the Massachusetts Institute of Technology.

GLOBAL INSURANCE MARKET INCREASED COMPETITION BOOSTS PRESSURE TO REFORM CENTURIES-OLD SYSTEM

Lloyd's set to approve capital change

By Christopher Adams, Insurance Correspondent

Lloyd's of London is expected soon to approve the first of several possible reforms designed to accelerate its transformation into a market place backed by permanent capital.

Underwriters seeking to buy space on the syndicates they manage will soon be able to negotiate "bilateral deals" with capital providers in parallel with annual capacity auctions.

Some have already been using dedicated capital to buy from Names the right to support the business which their syndicates write, creating nascent insurance companies in the process.

Such a move would accelerate the restructuring of the Lloyd's market. Several of the big corporate funds that have already formed strong equity ties with underwriting agents, but which still lack a wide range of business at Lloyd's, are seeking to restrict their

activities to just a few syndicates.

The change comes as increased competition in global insurance markets is adding to pressure at Lloyd's to reform its centuries-old system of capital provision.

Ron Sandler, chief executive of Lloyd's, has signalled that the "annual venture", where Lloyd's insurance syndicates raise fresh capital each year from Names and other backers, may need to be replaced by longer-term funding.

The need to raise capital annually makes long term business decisions difficult, say some underwriters. Few, though, have yet acquired complete control over the syndicates they manage.

The main way to buy capacity on syndicates has been through annual auctions, by which the Names, individuals whose personal assets have traditionally backed Lloyd's, can realise value on their participation by selling the capacity for cash.

This has been a slow process. Trading in the auctions is conducted through sealed bids and offers, with buyers paying the price they bid. Critics say the current system limits trading in large chunks of capacity because buyers do not know if their bids will be successful. Before last year's auctions began, some underwriters made open offers to all their capital providers.

The proposed changes could reduce liquidity in the auctions themselves.



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NEWS DIGEST

BRITISH STANDARDS INSTITUTION

\$60m acquisition marks move into world market

The British Standards Institution yesterday announced it had been granted "mould-breaking" commercial freedom by the government to borrow £36.5m (\$60m) to buy Inspectorate, an inspection company. The acquisition marks the self-funded body's move into the growing international market for assessing quality and safety standards.

Acquiring Inspectorate will give BSI access to its testing operations in more than 90 countries, making it the world's largest standards setting body. Annual turnover will almost double to £162.86m and the workforce to 3,400.

BSI's status as a world leader, with many of its products adopted by the International Standards Organisation, has been threatened because it lacks the global reach of larger competitors in Germany and France. Multinational companies are increasingly buying their quality assessment and certification from a single supplier.

Last year BSI's operating profit was £4.06m on turnover of £99.85m plus a government grant of £8.4m. Excluding exceptional items, profits were £3.64m. Gautam Malkani, London

TRANSPORT POLICY

Spending freedom expected

John Prescott, deputy prime minister and chief transport minister, expects the transport white paper [government policy paper] due in June to allow revenues raised from transport charging to be applied to improving transport infrastructure and public transport. This would represent a breakthrough for the deputy prime minister and his officials over long-standing Treasury objections to "hypothecation," allowing revenues from a particular area of economic activity to be retained for spending in that area.

Mr Prescott stressed that the move to hypothecation was being taken with great care to avoid opposition charges that the Labour government was loosening its controls of public finances. The indications are that much of the responsibility for applying charges to curb car use will be handed down to municipal authorities. They will be encouraged to devise schemes including charging for entry to congested city centres. Charles Batchelor and George Parker, London

See Page 24

LONDON TRAFFIC

Capital faces parking 'plague'

London faces a "plague" of more than 120,000 new car parking spaces - including those for the Millennium Dome - which threatens to undermine any government strategy for traffic reduction in the capital, the Council for the Protection of Rural England said yesterday. The CPRE says that while John Prescott, deputy prime minister and chief transport minister, is urging people to leave their cars at home, developers - and in the case of the Greenwich dome, the government itself - are "running amok" with plans that will have the opposite effect. The schemes include Terminal 5 at Heathrow airport, where BAA wants to create 27,000 parking spaces, and the Millennium Dome, which will have 6,100 spaces at park-and-ride sites. Brian Groom, London

OFFICE OF FAIR TRADING

Bus operators 'in secret deals'

Ten bus companies in north-west England struck secret deals to reduce competition and push up fares, the Office of Fair Trading said yesterday. Merseyside Transport (MTL) and nine other bus operators have been referred to the Restrictive Practices Court. The office is asking the court to make orders banning the alleged agreements when it hears the cases later this year.

MTL, which operates buses in London and northern England and trains in the north said it would look in detail at the allegations. It said they would not affect its plans for either a sale or public offering of its business. The OFT said MTL had already expressed willingness to give undertakings to the court.

The other companies alleged to be involved in the cartels were Greater Manchester Buses North, Greater Manchester Buses South, South Lancashire Transport Company, David Tanner Travel, Nip-On Transport Services, North Western Road Car Company, C&M Travel, FMT, and Halton Borough Transport. Charles Batchelor, London

GLOBAL WARMING

Warning over flood defences

Britain could be vulnerable to catastrophic flooding without a significant increase in funding for the nation's flood defences, flood defence officials warned yesterday. Geoff Mance, water management director at the Environment Agency, told the House of Commons agriculture committee that aid defences were designed to withstand disasters such as the recent floods only once in a century.

But this assumption could be overtaken by a possible increase in storminess and sea levels as a result of global warming. The flooding, concentrated in parts of central and eastern England, killed four people and caused property damage of up to £1bn (\$1.67bn). Leyla Boulton, London

A spot of sauce on your clothes. Who cares?

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SCANDINAVIAN AIRLINES

NEWS
STANDARDS INSTITUTION
Om acquisition marks
ve into world market

TRANSPORT POLICY
Spending freedom expected

LONDON TRAFFIC
Capital faces parking 'plague'

OFFICE OF FAIR TRADING
Bus operators 'in secret deal'

GLOBAL WARNING
Warning over flood defence

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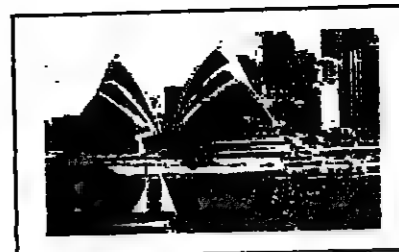
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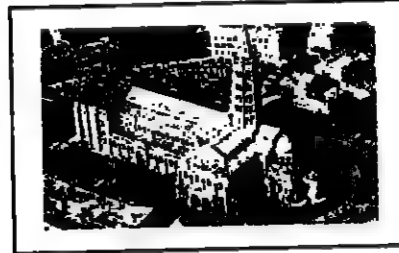
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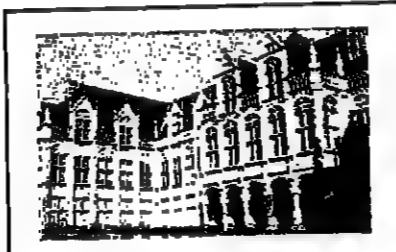
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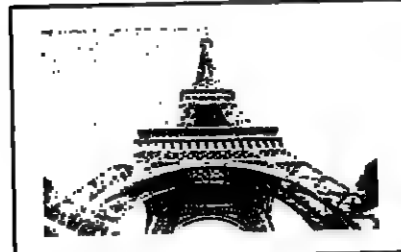
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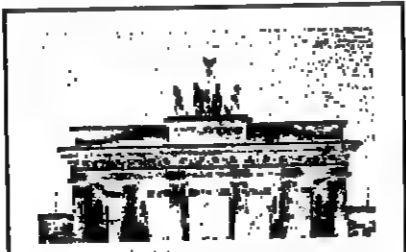
ROME



LIÈGE



PARIS



BERLIN



Dexia, the European banking group created by the merger of Crédit local de France and Crédit Communal de Belgique, reported total assets of 185 billion euros

at the end of 1997. Dexia is the European leader in the financing of public service facilities and is also active in commercial banking and asset management.



DUBLIN



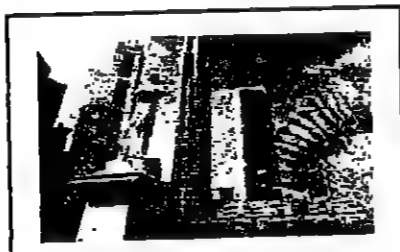
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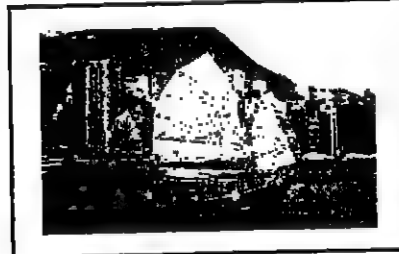
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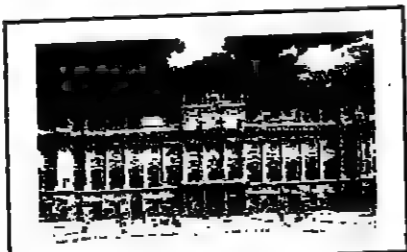
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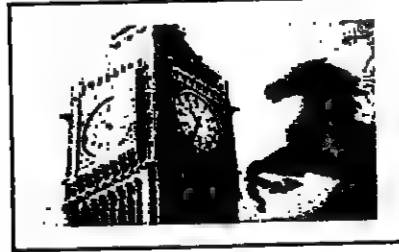
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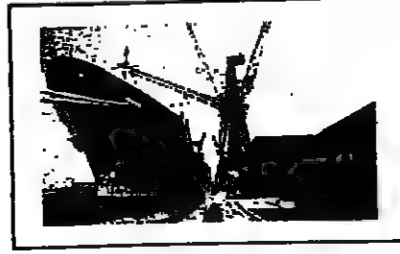
MARSEILLE



NANCY



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ANTWERP



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MANAGEMENT & TECHNOLOGY

INFORMATION TECHNOLOGY INTERNET SERVICE PROVIDERS

Internet small fry on the road to oblivion

Europe's small ISPs are in danger of being eaten up by both telecoms companies and larger US rivals, says **Richard Poynder**

Steve Carlson had high expectations three years ago when he founded ISYS Hungary, a small Budapest-based internet service provider. "We looked at the US market and figured the ISP business was a gold mine," he says.

"But the access business was never profitable for us. And when Matav [the Hungarian telecommunications utility] entered the market, it triggered a price war."

With their business plan collapsing before their eyes, Mr Carlson and his fellow directors hit the bullet. "Our choice was to sell 15 per cent of ISYS to Matav, pass them the access customers and focus on web design," he says.

Market forces are just as crushing in western Europe. "At the moment we have a price war that nobody can afford," confirms Sven Dirks, who manages 1,800 customer accounts at IVM, a small ISP in Waldorf, a town near Bonn. Nobody, that is, except the big guys. "The situation is very much like the PC market 10 years ago, where a lot of smaller PC dealers went out of business due to ever-decreasing revenues."

Mr Dirks's company is one of 2,500 ISPs in the fast-growing European market. Dataquest Europe, the IT market research group, expects revenue virtually to double by 2001, to \$4.5bn from today's \$2.3bn, and the number of users to increase to more than 62m from 38m. Some of these ISPs have a

few hundred customers, compared with 150,000 subscribers for Demon Internet, the mid-sized UK provider, and 12m for AOL, the international online giant.

Still, small and mid-sized ISPs claimed 56 per cent of the European market in 1996, according to the latest statistics from Dataquest. In the past two years, however, the European telecoms groups and large US providers have entered the fray. Analysts expect smaller ISPs will soon start to litter the information superhighway, the roadkill of inadequate

tions," says Ken Fraser, principal analyst at Dataquest Europe. "This hasn't made much difference to the gross number of ISPs."

The targets for acquisition are the successful ISPs. But those may be in the minority. "There are still lots of mom-and-pop, back-room, and corner shop-level operations in existence. Some of these are supposedly operated for a profit, but barely so," Mr Fraser says.

Pricing pressures are not the only challenge for small ISPs - they must also keep

less of a service and more of a commodity, analysts and web entrepreneurs agree that smaller ISPs will adapt or die. But few can describe the small ISP of the future. Mr Fraser sees that the smaller ISP "is increasingly going to be squeezed by the telcos in the consumer market, which is going to be totally price-dominated, and by the larger players like UUNET and PSINet in the larger corporate market."

But he still believes there is room for smaller ISPs. "They need to specialise," he says. "This might literally be geographic, because people do like to buy locally, and the idea of having support locally is an attractive one. Or it might be a market sector, because the commerce side is going to be increasingly important."

Even the biggest ISPs, though, have a soft spot for the small fry. "There is a need to encourage small businesses to take advantage of the Internet," says Richard Woods, spokesman for UUNET UK, a WorldCom subsidiary.

He says that although UUNET does service this segment, it is not the company's "natural market". But he says, it is vital that smaller ISPs offer value-added services such as web design, advice on setting up an intranet advice service, web hosting and mail hosting.

Mr Dirk has got the message. Offering a dial-up service, he says, should be a secondary activity, merely a vehicle for higher-value business. "We see the selling of connectivity as a platform for selling other services. Right now we are moving into consulting and systems integration."

Mr Reynolds, meanwhile, foresees a healthy margin in selling leased lines, as there is little up-front cost. He is also talking to a potential client who wants to sell ties over the Internet, and is thinking about other possibilities for e-commerce on the web.

Mr Reynolds, a former British Gas finance director who has a company pension and whose partner has a full-time job, can afford to sit out the squeeze on small ISPs. "I suppose [Thames Global] is a hobby business that has grown into something more than originally intended," he muses.

But not all small ISPs are so fortunate. Pricing pressures were apparently too much for WIDNET, a small ISP based in the UK that closed in November. "They just ceased trading one day," says web designer Rob Mason, who was a customer and tenant.

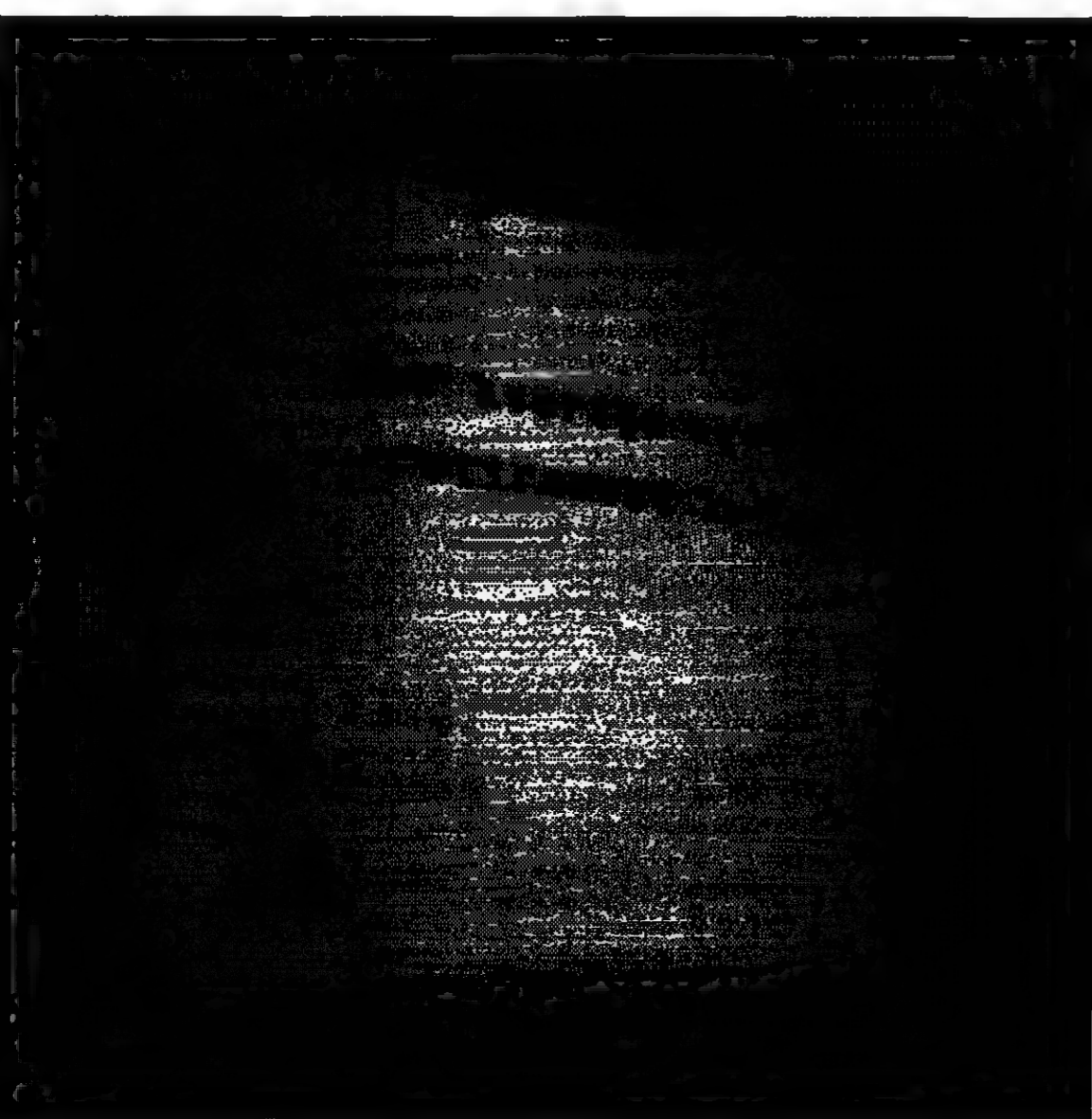
'The situation is very much like the PC market 10 years ago, where a lot of smaller PC dealers went out of business'

business models and collapsing margins.

In the UK, Barry Reynolds is starting to feel the pinch. His company, Multigrip, runs the 300-subscriber Thames Global Internet Services, and might reach £40,000 (\$65,800) in revenue this year, not enough to pay himself or his part-time partner. The problem: "Demon has set the UK rate for dial-up access at £10 a month - and everyone is having to compete against that."

Despite the competition, new entrants, often motivated by altruism, are easy to find. "So although there have been some acqui-

up with the latest technology. Customers were once content with standard analogue modems. Now they want to connect using faster, digitally enhanced modems and Integrated Services Digital Network (ISDN) lines. Soon they will be demanding access via Asymmetric Digital Subscriber Line(s) (ADSL), cable and satellite. "Where previously it was simply a matter of going out and buying a few more modems, [smaller ISPs] now need to make additional investment in a diverse range of new access methods," says Mr Fraser. As connectivity becomes



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Smartcard technology added to mobile phones

One of the factors delaying the widespread use of smartcards - plastic cards that contain a semiconductor chip instead of a magnetic strip - is the need to install terminals to read the cards and, in the case of cards operating as electronic wallets, to "load" them with electronic cash.

Motorola, the US electronics and communications group, has come up with an innovative solution using a digital GSM mobile telephone handset, writes Paul Taylor. Every GSM telephone requires a subscriber information module (Sim card) - a type of smartcard - before it can be used.

Motorola has taken one of its GSM phones, the StarTAC pocket phone, and added a second card slot, turning it into what it terms "the integrated smartcard phone" which combines the features of a traditional GSM phone with the potential of smartcard technology. The development is expected to pave the way for a range of consumer applications, including playing the role of a mobile automated teller machine, remote ticketing, pay-as-you-use telephony and flexible, secure online payments.

By adding an additional small GSM Sim card reader to the StarTAC handset, Motorola has freed the existing full-size large format card reader for use by a third-party smartcard issuer, such as a bank. Motorola believes early users

for the smartcard phone could include ordering foreign currency or booking cinema tickets while on the move, or paying for goods and services securely over the GSM network.

A user wanting to buy products or services over the phone would simply install the smartcard, dial the telephone number and then book and pay for the item. The phone could also be used to check bank balances, transfer money between accounts or pay bills online. It could also act as a mobile cash terminal to load new funds on to a smartcard, such as the Mondex digital cash card for use in cashless environments.

Chris Jackson, director of marketing in Motorola's European cellular subscriber group, says the group produced the two-slot version of the StarTAC in just a few months and plans to have the new phone in production by the end of this year. "Motorola led the market in effectively taking pay phones off the wall and placing them in consumer hands. Now we are planning to do the same thing with ATM machines - enabling a new cashless society where people can instantly access electronic cash and services," Mr Jackson believes.

Financial institutions, telephone network operators, airlines and mass transit authorities are among the potential issuers of smartcards that would use the phone. www.mot.com

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IN BRIEF

Looking at the PC, looking at you...

An increasing number of PCs are being fitted with video cameras for desktop videoconferencing or web photography. But why not put the hardware to use when you are away from a PC or by telephone. Claimed benefits include centralised hard information, instant access to all registered animals' data, less administration, and an approved interface to the systems of the UK's Ministry of Agriculture, Fisheries and Food.

"The current paper-based system is not the best way forward, and millions could be saved by removing the cumbersome administration behind it," says Iain Graham, chief executive of the company and a successful breeder of Highland cattle. www.gibnet.com/elite

participate in a new online registration system enabling cattle to be traced, and thereby reassuring consumers. Two schemes, TracePlus and Elite, aim to help farmers comply with the legal requirements of birth registration, movement records, and application for cattle passports whether by direct access from a PC or by telephone. Claimed benefits include centralised hard information, instant access to all registered animals' data, less administration, and an approved interface to the systems of the UK's Ministry of Agriculture, Fisheries and Food.

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British Airways is testing a contactless smartcard-based system at Gatwick to cut delays caused by missing passengers. Developed by Philips, it exploits advances in radio frequency tagging

around \$250, features a desktop microphone and infra-red remote control device that lets users make and receive hands-free voice calls with their modem, even when it is switched off. It can also set answering machine functions, set the modem to fax only, voice only or voice and fax, and set speaker volume. Olfec says the new device removes the need for

dedicated telephone, fax, answerphone and data communications equipment. It includes a dedicated microprocessor and 2MB of memory for message storage, enabling it to receive and store up to 20 minutes of voice messages, or 50-100 pages of faxes. www.olfec.com

Paul Taylor

Follow that herd of cows

Graham Technology, a Glasgow-based technology company with links to the farming industry, has launched a scheme that lets farmers



JOHN KAY

We're all postmodern now

Executives who talk of redefining the company may be making the same mistakes as the architects who designed tower blocks

Architecture today is generally described as postmodern. It rejects the values that inspired the modern architecture of the 1920s and 1930s. You can see these values all over many cities. The buildings are tall, grey, neglected and awaiting demolition. Never before has the construction of an era been so short-lived.

Yet the architects who devised these buildings were neither stupid nor untalented people. The finest buildings of the founders of modern architecture - men such as van der Rohe, Gropius and Le Corbusier - display genius to match the great architects of any era. But they were gripped by a theory of modernity; a theory encapsulated in Le Corbusier's famous remark that "a house is a machine for living in". That philosophy reached its high point in the *units d'habitation* Le Corbusier designed on the outskirts of Marseilles. We now call them tower blocks.

The theory of modern architecture began by distancing itself from the past. For centuries architects had been constrained by principles of classical design, inherited from the Greeks and Romans. In this tradition houses were recognisably houses, whether Palladian villas or Highland crofts, whether built by the Emperor Hadrian or George Wimpey.

Any child asked to draw a house will sketch a building with symmetrical windows arranged around a door beneath a sloping roof. Modern architects, aided by technology, felt able to

challenge all that. The only constraints were those of the imagination. It was time to rethink the purposes of a building from first principles on an entirely rational basis: literally from the ground up. So modern architects assumed for themselves a leadership role. They were the harbingers of a new age. While Vanbrugh or Robert Adam had been tradesmen, sympathetic but marvellously skilful interpreters of the needs of their wealthy clients, the objective of the modernists was to drag us all kicking and screaming into the technological future.

And then there was an emphasis on functionality. Buildings were to be stripped of anything that was not directly useful. Ornament was superficial, wasteful and in the end dishonest. Buildings should be true to their essential purpose. And in these requirements - modernity, rationalism and functionality - modern architects were resolutely supported by modern politicians and modern planners.

We now know it was all a ghastly mistake. The leading theorist of postmodern architecture, Charles Jencks, dates the end of the modern era from 1972, when the city of St Louis decided to demolish the apartment blocks for which it had received architectural prizes only 17 years earlier. Since then, municipalities and companies all over the world have followed their example.

The point, of course, is that houses are not just machines for living in. They

are homes and parts of communities. To serve these needs demands respect for conventional - even banal - aesthetics and for the social relationships that make homes and communities. The tower blocks, with their emphasis on functionality, earned so little respect from their inhabitants that they urinated in the lifts, painted graffiti on the walls and quickly destroyed even the prized functionality.

No one would make these mistakes today. Or would they? If you want a clue as to who might, take a look at the buildings erected by modern corporations: rational, modern, functional and almost uniformly undistinguished. The greatest postmodern corporate headquarters are probably those of AT&T and HSBC - exceptions that prove the rule, built by companies that have been able to stand back a little from the pressures of competitive markets.

Perhaps the only recent UK corporate headquarters of any architectural interest is the Lloyd's of London building, and thereby hangs a tale. No British company today has the self-confidence exuded by the massive piles that ICI and Unilever built between the world wars on the banks of the river

Thames. Gropius and Le Corbusier would feel strangely at home in today's boardrooms. Have you ever heard a chief executive emphasise the need for a company to distance itself from the past, and rethink the nature of its activities from first principles? Have you ever heard a chief executive say

it is no longer enough to lead from behind, that executives must understand the evolution of their organisation and exemplify that evolution? That today it is necessary to define a vision and lead everyone in the company towards it?

And have you ever heard a chief executive say that the modern company must be lean and mean, and that any part of it that cannot be justified in strict functional terms must be eliminated? Come to think of it, have you ever heard a recent speech from a chief executive that has not said all these things?

Now maybe there is a difference between the architecture of buildings and the architecture of organisations. Maybe it is true that the functionality of buildings depends, in the long run, on the intangible aspects of the relationship between the buildings and the occupants, things that cannot be easily articulated but have been learnt from generations of experience; but this is not true of the functionality of corporations.

Maybe it is true that we can destroy communities when we restructure them without regard to the wishes of their members, but this is not the case when we restructure corporations.

Or maybe there are no such differences, and the architects of modern companies are repeating the errors of the architects of modern buildings. Perhaps it is time to develop a theory of postmodern management.

The author is the Peter Moores Director of the Said Business School at Oxford University and a director of London Economics. This column appears fortnightly.

quiet tree

Fairy Queen no drag

Arts Guide

مكتبة الأمل

THE ARTS

MUSIC

A quiet trendsetter makes a move

Pierre Ruhe talks to conductor David Zinman as he prepares to leave the Baltimore Symphony Orchestra for Zurich

When David Zinman, music director of the Baltimore Symphony Orchestra, received Columbia University's 1997 Distinguished Conductors Award, his "crucial role in bringing many of America's finest younger composers into national and international prominence" was cited. "No American conductor of recent years has made American music more central to the repertoire... and none has performed it with more passion and care." A fair assessment.

In 13 seasons leading the BSO, Zinman turned the historic port city on the Chesapeake Bay into one of the best places to hear both the latest trends in contemporary music — touch of it American — as well as exceptionally spirited, past performances of Beethoven, Mozart and Schumann.

The BSO has a uniquely "popular" origin, having been the only American orchestra founded, in 1916, as a branch of city government. Privatisation came in 1942. In the intervening years, the orchestra mostly suffered from financial and artistic false starts, until reborn with a new hall and, a few years later, Zinman as music director.

This season will be his last with the BSO. He is moving his base from Baltimore to Zurich, where he has led the Tonhalle Orchestra since 1985. Beginning in 2000, Yuri Temirkanov takes over the BSO, while maintaining positions with the St. Petersburg Philharmonic and with London's Royal Philharmonic.

Many young US composers are now identified with Zinman, who played and recorded their works before they became fashionable

Health problems prompted Zinman's retirement from Baltimore. Stress levels are lower in Zurich than for any US hand because the orchestra is financially secure. Just nine people run the Tonhalle Orchestra, although it gives just as many concerts as Baltimore — which employs at least 70, many of whom toil in the fundraising and marketing departments. Zinman is also reducing his guest conducting schedule, although he has taken over the Aspen music festival and looks forward to a summer in the dry mountain air coaching young conductors and student orchestras.

Born in the Bronx, New York,

in 1936, Zinman for a time lived across the street from Bela Bartók; he remembers throwing stones at the old man's window, which is not quite the level of respect he now gives contemporary composers. He studied violin, composition and conducting before becoming Pierre Monteux's assistant in the early

1960s. Appointments with the Netherlands Chamber Orchestra, Rochester Philharmonic and the venturesome Rotterdam Philharmonic followed.

Like Monteux, Zinman's wit is fondly remembered by his players. In rehearsal he once growled at the basses "play like dogs hungry for meat." To an oboist: "play like a squeezed duck, moaning softly against a greasy, grey sky." Again like Monteux, he will enter history for the new works he helped foster.

Many young American composers are now identified with Zinman, their works often rhythmically jazzy with pop overtones and a penchant for stylistic pastiches: Bolcom, Torke, Kernis, Daugherty, Mackey and Danielpour, all composers he played (and recorded, mostly on Argo) years before they became fashionable.

Of all the many records he has cut, Christopher Rouse's Symphony No. 1 stands above the others, Zinman feels. "I'm always

modest rather than any lack of lucidity or firm architectural grasp; these he does brilliantly. Perhaps his form of modesty — "I was never ambitious for anything," he has said — accounts for Zinman's comparatively unassuming career.

His Beethoven, in contrast, sounds like fresh, newly composed music, all his own. He has best resolved the conflicting pressures from the historically-informed movement with the natural strengths of the modern symphony orchestra, through an approach that is rhythmically vital and harmonically pungent as well as lithe, full-bodied and warm. The winds gain prominence and he pushes tempi to just inside what the players can comfortably navigate. In performance it can be thrilling. With his Zurich orchestra, he will be the first to record all the Beethoven symphonies using Jonathan Del Mar's new edition, published by Bärenreiter. Baltimore audiences might not have realised the multi-faceted treasure they had in Zinman; certainly few in the US acknowledged his accomplishments.

When named the BSO's music director-designate, Temirkanov



Modest, with a ready wit: David Zinman

announced he intended to delve heavily into the Austro-German repertoire. Old favourites, Russian and French standards, were on the programme for his first concert since the appointment. Atmosphere and singing lines were paramount for Debussy's *Faun* Prelude and Rachmaninov's Second Symphony. The concert was satisfying, the players seemed rapturous, although signs of a profound or lasting chemistry between conductor

and orchestra were not yet evident. A better concertmaster and a warmer, more legato string sound will be among Temirkanov's initial changes. He is not known as a builder, but this will not be necessary. The orchestra is a flexible, responsive ensemble. At best he can do for Baltimore something similar to what Carlo Maria Giulini did in Los Angeles: share his poetic insights with players grateful to learn from an old-world maestro.

'Fairy Queen' is no drag

OPERA

RICHARD FAIRMAN

English National Opera

My edition of the *Concise Oxford Dictionary* does not attempt a definition of "camp" but the compilers do not need to look far for inspiration. An evening at English National Opera's production of *The Fairy Queen* will show the term rampant in all its colourful, vulgar, over-the-top, suggestive glory.

Most opera companies would rather run a mile than stage one of Purcell's notoriously problematic semi-operas, but the composers' centenary in 1995 left those in Britain with no option. The Royal Opera responded with a lavish co-production of *King Arthur* with the Théâtre du Châtelet in Paris, which was regarded as one of the hits of the year, and ENO with this controversial *Fairy Queen*.

Two-and-a-half years later it is making a comeback with its excesses tamed, so they say, though on a first-time visit it is difficult to tell. This is ENO in its most aggressively trendy mode. Somewhere in the depths of Islington there probably are people who give parties like this, where you are simply not one of the crowd unless you turn up in white shorts with slinky knee-length black leather boots or little evening wear topped with little glittery silver wings — and that is just the men.

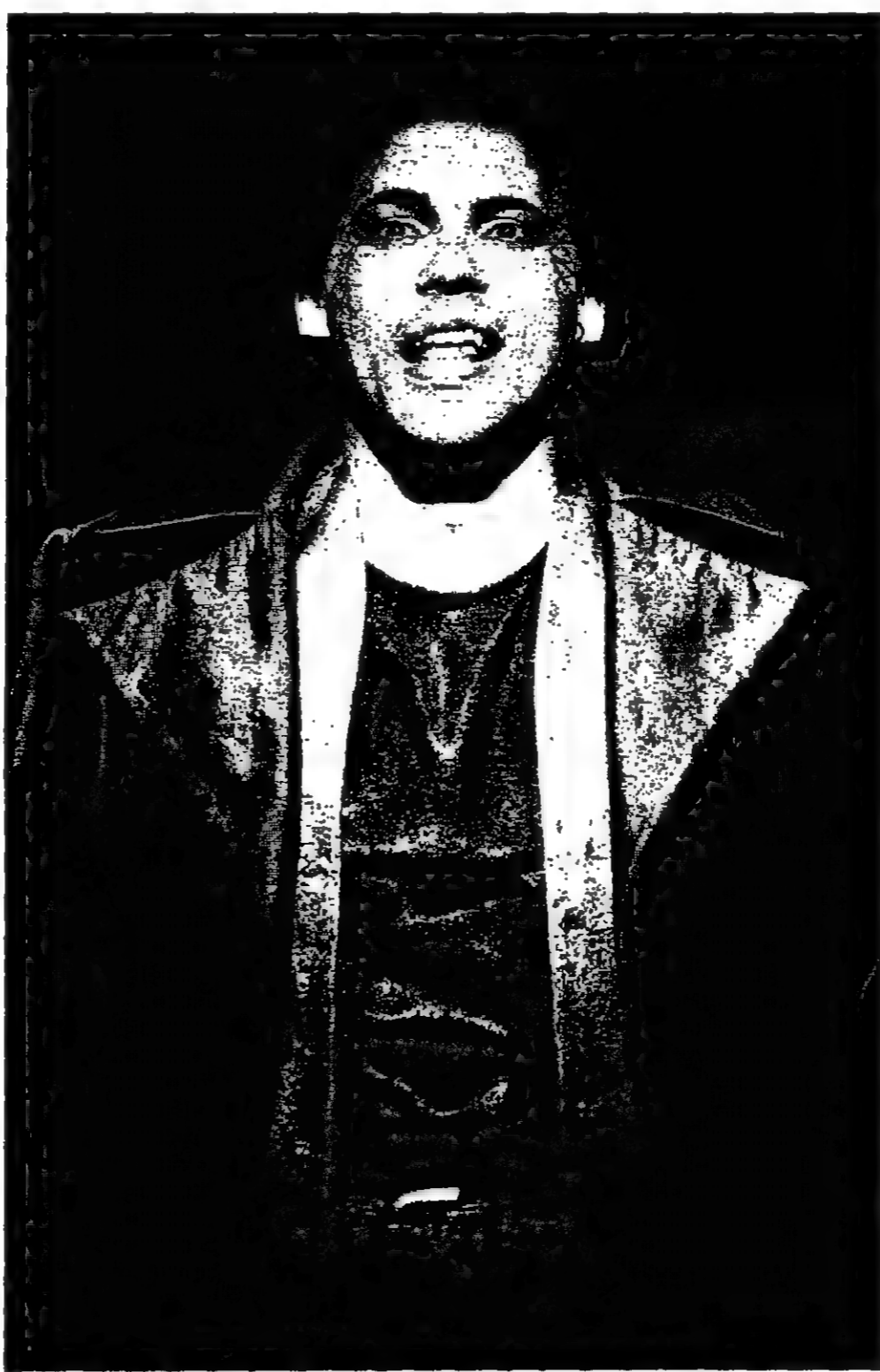
A lot of fun is had by all, and rather more might have been had by the audience, if David Pountney's original production had known when to stop. Scrape away the layers of eyeshadow, strip off the gold jockstraps, and underneath is a fairly canny idea of how to handle this awkward combination of straight play and opera. Essentially, what Pountney did was to conflate the two halves so that the musical num-

bers take over the story of the play and the text, bowdlerised Shakespeare, can be left out entirely.

Puck is played here by a dancer, the energetic Simon Rice — goatee and pigtail naturally, and he probably plays Obed too loud in the fairy dell. Thomas Randle sings Oberon with more heft than grace, and Yvonne Kenny overcomes problems with tuning to sing the plums allotted to Titania with the sort of steely purity-on-a-big-scale that the London Coliseum demands. It is a relief when she is left alone on stage for the "Plaint", when the rest of the evening gets overrun by extra. There have been so many cross-dressing faeries flitting about that the real drag scene between Purcell's Coridon and Mopsa would not be funny at all, if Jonathan Best — also a splendidly deadpan Drunken Poet — did not join with Christopher Robson to make it so sly.

The Chinese episode has vivacious dancing and the central divertissement casts a satirical eye over Purcell's effusive hymning of our kings and queens. There is not much stylish staging outside those members of the cast who can maintain a pure and musical line, notably Janis Kelly, Mary Hegarty and Ryland Angel. But in any case there are plenty of better performances of the music to be heard in concert-halls than this one, conducted by Nicholas Kok, in an oversized theatre where the orchestra gets muffled. The reason for going to see it is the vitality the music unleashes on stage. Whatever else Purcell's contemporaries might have done with *The Fairy Queen*, it would not have been stuffy or boring. ENO's production is neither of those things. After all, what is "camp" without shockability and self-confidence?

In repertory at the Coliseum, London WC2.



More heft than grace: Thomas Randle as Oberon in David Pountney's enjoyably camp production

More soap here than sensitivity

THEATRE

ALASTAIR MACAULAY

A Question of Mercy

Bush Theatre, London W8

The man in agony who wishes to die has figured in classic world drama, from Sophocles's *Philoctetes* through to *Amorites* in Wagner's *Parsifal*. In David Rabe's new play *A Question of Mercy*, the afflicted guy lives in downtown New York: he is Colombian; he has AIDS. He tries to persuade his lover Thomas, their best friend Susannah, and a doctor in assisting him to commit suicide. *A Question of Mercy* comes from the Long Wharf Theatre, New Haven, Connecticut, to the Bush Theatre in London last year; alas, *A Question of Mercy* is worse. A bizarre tension develops between the situation in which Rabe puts his four central characters and the way he makes them talk. The day-by-day account of how Dr Chapman is roped in by Thomas to meet lover Anthony, who plans to die by an overdose of barbiturates, feels, as Rabe tells it, merely like one strand from a New York soap-opera. The characters have no particular depth or complexity; but Rabe takes each blow-by-blow stage of their developing situation, and preserves it like a dead fly in amber. Will Dr Chapman break his Hippocratic oath? Can Thomas bear to help his lover die? Why is Anthony choosing this mode of suicide? (Find out in today's episode of...) This is, dramatically speaking, slow and simple stuff.

What turns it into the theatrical equivalent of Chinese water-torture is that these three guys and the lovers' best friend Susannah all talk in the overlong, carefully considered, and perfectly formed sentences of Henry James. Or, at least, they try. The pious Susannah tells the audience, "My philosophy, if you can call it that, has always been to do with the interpersonal moment". Just in case she is talking above our heads, she then adds, "In other words, what are we doing?" Then there is the acting. Seth Gillian, as Anthony, tells the doctor of his immense exhaustion while gesturing quickly and lightly; the degree of muscular support behind his gestures is not that of an exhausted man. As things get sadder for Susannah, Babo Harrison adopts a wannabe-woebegone look that is just like the one Deirdre adopted in the

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Rabe takes each blow-by-blow stage of a developing situation and preserves it like a dead fly in amber

UK soap *Coronation Street* when the judges sent her to prison: mouth pulled down, eyes staring wide but dully, ear drums working like hell. On the one hand, it is impossible to believe in any of these characters. On the other, the play is full of potentially interesting moments that Rabe and director Doug Hughes decide not to develop, like Anthony's vague attempt to flirt with the doctor, the doctor's unspecified response to Anthony, and Thomas's momentary hint that he is feeling excluded by the other two guys. At these moments, you start to come to, and to think "Oh good, a play." But no: each of them evaporates. London has seen better American Aids plays, and better American acting, than this long, limp, polished, phoney piece of sensitivity and torpor.

INTERNATIONAL Arts Guide

AMSTERDAM

CONCERTS

Concertgebouw

Tel: 31-20-575 4411

- London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein and Copland; May 2
- London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein, Mahler and Strauss; May 3

EXHIBITIONS

Rijksmuseum

Tel: 31-20-573 2121

Drawings from the Golden Age: special display of 100 17th century Dutch drawings. Highlights include landscapes by Vischer, Van der Velde and Van Goyen; to Jul 12

BERLIN

DANCE

Deutsche Oper

Tel: 49-30-34384-01

La Sylphide: revival of a production designed by David Walker and directed by Peter Schaufuss, after August Bournonville; May 1

OPERA

Deutsche Oper

Tel: 49-30-34384-01

- Lohengrin: by Wagner. Revival of a production conducted by Christian Thielemann and staged by Götz Friedrich; Apr 30
- Parsifal: by Wagner. New production conducted by Christian Thielemann in a staging by Götz Friedrich; May 3

CHICAGO

CONCERTS

Orchestra Hall

Tel: 1-312-294-3000

Chicago Symphony Orchestra: conducted by Pierre Boulez in works by Ravel, Ligeti, Messiaen and Roussel. With piano soloist Pierre-Laurent Aimant; Apr 30; May 1, 2

EDINBURGH

EXHIBITIONS

Scottish National Gallery of Modern Art

Tel: 44-131-624 6200

Sacred and Profane: Calum Colvin. Display of 10 specially-commissioned works by one of Scotland's leading contemporary artists; to Jun 28

FLORENCE

OPERA

Maestro Musicale Fiorentino

Tel: 39-55-211158

La Traviata: revival of a production by Lady Macbeth of Mtsensk by Shostakovich. New production by Lev Dodin, conducted by Semyon Bychkov; Teatro Comunale; Apr 30

29; May 2

FORT WORTH

EXHIBITIONS

Kimbell Art Museum

Tel: 817-3328451

www.kimbellart.org

Ancient Gold: The Wealth of the Thracians. 200 pieces of gold and silver including weapons, rings, necklaces and ornaments, from the Republic of Bulgaria. Metawork is the principal archaeological legacy of the Thracian people, who occupied most of central Europe from the 6th millennium B.C. until the 4th century A.D.; to Jul 19

LONDON

CONCERTS

Barbican Hall

Tel: 44-171-639 8891

London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Bernstein, Mahler and Copland; Apr 29

Royal Festival Hall

Tel: 44-171-624 4242

● London Philharmonic Orchestra: conducted by Mark Wigglesworth in works by Debussy, Beethoven and Sibelius. With piano soloist Lars Vogt; Apr 29

● London Philharmonic Orchestra: conducted by Mark Wigglesworth in works by Webern, Brahms and Shostakovich. With violin soloist Joshua Bell; May 3

● Philharmonia Orchestra: Mozart Piano Concerto Cycle. The second of two concerts given by Andris Solists features the three final Piano Concertos, Nos. 25, 26 and 27; Apr 30

● The Royal Opera: Parsifal, by Wagner. Concert performance, conducted by Bernard Haitink. The title role is sung by Plácido Domingo; May 1

EXHIBITION

National Gallery

Tel: 44-171-639 3321

Anthony Caro at the National Gallery: Working after the Masters. Display of recent sculptures which take their inspiration from painters including Mantegna and Rembrandt; to May 4

LOS ANGELES

OPERA

L.A. Opera, Dorothy Chandler Pavilion

Tel: 1-213-972 8001

● Traviata: by Verdi. Conducted by Gabriele Ferro in a staging by Stephen Lawless. Cast includes Vladimir Bogachov; Apr 29; May 2

MANCHESTER

CONCERTS

Bridgewater Hall

Tel: 44-161-907 9000

Detroit Symphony Orchestra: conducted by Neeme Järvi in the opening concert of a European tour. Programme includes Prokofiev's Piano Concerto No. 3, with soloist Leif Ove Andnes; Apr 29

MUNICH

CONCERTS

Philharmonie Gasteig

Tel: 49-89-5481 8181

Munich Philharmonic Orchestra:

conducted by Heinrich Klug in works by Ginastera and Milhaud; May 3

EXHIBITION

Haus der Kunst

Tel: 49-89-211270

Arnold Böcklin, Giorgio de Chirico, Max Ernst: Journey into the Unknown. Selection of 130 paintings, collages and sketches, previously seen in Zurich; ends on Sunday

NEW YORK

CONCERTS

Lincoln Center

Tel: 1-212-721 8500

www.lincolncenter.org

● New York Philharmonic: works by Carter, Mahler and Sibelius. Conducted by Leonard Slatkin; Apr 30; May 1

● New York Philharmonic: conducted by Leonard Slatkin in chamber music by Dvorák, Saint-Saëns and Ravel; Avery Fisher Hall; May 2

EXHIBITIONS

Guggenheim Museum

Tel: 1-212-423 3500

www.guggenheim.org After Mountains and Sea: around 14 works by created by Helen Frankenthaler during the years 1956-1958; ends on Sunday

Pierpont Morgan Library Tel: 1-212-685 0008

British Drawings and Watercolours: major survey of the library's collection in this field, including works by Hogarth, Blake, Turner and Ruskin; ends on

Sunday

PARIS

CONCERTS

Salle Pleyel

Tel: 33-1-4561 8589

Orchestre de Paris: conducted by Kurt Sanderling in works by Mozart and Bruckner. With violin soloist Tedi Papavrami; Apr 29, 30

EXHIBITION

Centre Georges Pompidou

Tel: 33-1-4478 1275

www.cncg-pg.fr

Max Ernst: Sculptures, maisons et paysages. Around 100 sculptures and paintings by the German-born artist (1891-1976), who lived and worked in Paris and the US. Associated with Dada and the Surrealists, Ernst broke away from them to develop his own style; to Aug 17

ROME

EXHIBITION

Palazzo Ruspoli

Tel: 39-6-6830 7344

www.palazzoruspoli.it

Mummy Portraits: nearly 200 portraits, previously seen at the British Museum in London, painted on wooden panels, linen shrouds and plaster masks, during the first three centuries of Roman rule in Egypt; ends on Thursday

ROTTERDAM

EXHIBITION

Kunsthall

Tel: 31-10-440 0300

Roger Ballen: This Africa. Works representing South Africa's white

rural poor, by the American photographer (b.1950); to Jun 21

TORONTO

EXHIBITIONS

Art Gallery of Ontario

Tel: 1-416-979 6656

Julia Margaret Cameron: The Creative Process. 50 works by the Victorian photographer, lent by the Getty Museum, includes studies of famous contemporaries; ends on Sunday

● The Warhol Look/Glamour Style Fashion: major retrospective tracing Warhol's career from the 1940s to the 1980s; ends on Sunday

TV AND RADIO

● WORLD SERVICE

BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (483m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International Monday to Friday, GMT: 06.30: *Moneyline* with Lou Dobbs 18.30: *Business Asia* 19.30: *World Business Today* 22.00: *World Business Today Update*

● Business/Market Reports: 05.07; 08.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20 Tanya Beckett of FTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

LIONEL BARBER
EUROPEAN VIEWPOINT

The cracks appear

On the eve of the euro's launch, France seems to be getting the better of Germany in the way Emu should be run

"Germany is abandoning its national flag. The national flag of Germany is the D-Mark" - Elisabeth Guigou, member of the European Parliament

Economic and monetary union was a strategic bargain between France and Germany. But securing the single currency for German unification was always an unequal bargain. Francois Mitterrand, the former French President, could never have halted the march to German unity. But Chancellor Helmut Kohl's agreement to swap a proven D-Mark for an untested euro was an act of faith.

This weekend, the 15 heads of government of the European Union will decide in Brussels which country is to be the guarantor of the new Euro-X forum. It is a genuinely historic moment. But the paradox of German weakness - not German strength - is even more striking today than it was in the Dutch border town of Maastricht seven years ago.

Mr Kohl is imploding. His centre-right liberal coalition is in disarray. The CDU's decisive defeat in last Saturday's election in the eastern state of Saxony-Anhalt suggests that the chancellor's chances of winning September's general election are slipping away.

By contrast, France has discovered the virtues of a weak president and a strong government. Jacques Chirac has lost control of his Gaullist party, but he can strut his stuff in foreign policy. Lionel Jospin, the Socialist prime minister, is running the country.

Now comes the next challenge for the French: how to exercise a dominant role in the political management of economic policy in the euro zone.

EU leaders are certain to

give their blessing this weekend to a broad-based monetary union with 11 members, including Italy. The Bundesbank view was that a narrow Emu built round the D-Mark would have been safer. One up for France.

The second challenge is to turn the new Euro-X forum for euro zone finance ministers into a political counterweight to the European Central Bank. This issue points to mutual mistrust over the operation of the single currency. The Germans are clinging to the anti-inflationary "stability culture" that has underpinned the D-Mark since 1945. The guarantor of this stability is an independent ECB modelled on the Bundesbank and buttressed by fiscal discipline enforceable through penalties in the German-designed Stability Pact.

The French tradition is different. State interference



Good old days: France and Germany are not so close now

In the economy is engrained. Hence the demands for a political counterweight to the ECB that can favour employment and growth.

The lack of trust between the two allies became apparent at the Dublin summit in December 1996 during marathon talks over the terms of the Stability Pact. A new French book describes how Mr Chirac and Mr Kohl, their faces almost touching, screamed at each other while aides looked on helplessly. The Dublin summit ostensibly laid these tensions to rest. The Stability Pact was renamed the Stability and Growth Pact. But six months later, at the Amsterdam summit, a freshly elected Mr Jospin pressured the Germans into a further commitment to support growth through a closer co-ordination of economic policy.

At the time, the Amsterdam declaration was dismissed as a sop to a weak left-wing government weighed down by misguided election campaign pledges. In fact, it was the first shot in the battle for influence in the post-Emu world. Today the French, sensing German weakness, are rampant. Proof came 10 days ago during a skirmish in Luxembourg between Theo Waigel, the German finance minister, and Dominique Strauss-Kahn, his wily French counterpart.

The trigger was Mr Waigel's call for tighter budgetary discipline in 1998. He argued that any windfall Treasury receipts due to higher growth should go towards debt repayment.

Mr Waigel's stand reflected Bundesbank pressure for countries such as Italy and Belgium to do more to cut their excessive stock of debt. But it also pointed to a broader

concern: that countries will repeat the mistakes of the late 1980s when they failed to correct public deficits during a recovery.

Mr Strauss-Kahn brushed aside the German demands. Budgetary policy remained a national responsibility. Any "growth dividend" would go toward investment and employment. Mr Jospin drove the message home: "My central objective is not the euro but France," he declared.

These exchanges reflect other differences of approach. France wants to align macroeconomic policies so that countries' economic cycles are more in tune. This would apply to countries such as Ireland and the Netherlands which are ahead of others in the economic cycle. It could also apply to Europe as a whole.

France wants co-ordinated relations in the event that the euro zone risks tipping into recession. This co-ordination could have the effect of circumventing the Stability Pact.

The Germans are nervous. Their view is that if everyone respects the Stability Pact, the system works by definition and there will be no need for an overly restrictive monetary policy. Also, they say, French demands for supranational budgetary co-ordination risk running foul of the independent-minded German states.

Franco-German tensions could ease if a pro-growth Social Democrat party wins the September election. But this may underestimate the German population's attachment to the stability culture. It may also overlook the chances of a grand coalition between the SPD and the CDU.

In a perfect world, says one Bundesbank official, the best defence against French manipulation would be British membership of Emu. But Tony Blair, the UK prime minister, is still sitting on the fence, and a recent high-level visit to Brussels mentioned 2004 as the earliest date for British entry. The Germans are on their own.

"Le Roman de l'Euro: Gabriel Millet, Hachette

Lionel Barber@ft.com

LETTERS TO THE EDITOR

Tobacco: rehashing the propaganda

From Prof Gerard Hastings.

Sir, Roger Bate ("A myth stubbed out", April 20) recycles a number of familiar arguments. To argue that countries that have banned advertising have higher smoking levels than some that have not, proving that bans do not work, is naive, since it assumes that the only difference between these countries is their stance on tobacco advertising. In reality they will have a large array of cultural, economic and social differences, all of which may explain variations in the prevalence of smoking.

Second, Mr Bate raises the old issue of tobacco being a "mature market". By this he means that the overall market size is not growing, at least in Europe. In reality there are a number of different sub-markets, some of which are growing, some not. Most significantly, there

is a mature adult market of committed smokers on the one hand, and an all too immature starter market on the other.

The former smoke for biochemical reasons - they need their nicotine fix. The latter, who comprise mainly children for example, 80 per cent of UK smokers start before the age of 18, smoke for psycho-social reasons - to rebel, to appear cool, to impress their friends and so on. Advertising is much more likely to influence them than their addicted parents.

Third, Mr Bate argues that peer pressure is a greater influence on young smokers than advertising. This is probably right, although it should be recognised that all these influences interact, and advertising probably strengthens the pressure from peers to smoke. The problem is that it is

extremely difficult to change peer pressure, whereas advertising can be removed quite easily.

Finally, Mr Bate argues on the one hand that advertising has no effect on people's behaviour, but on the other that removing it will increase consumption because people will be deprived of the health warnings they include. If anti-smoking messages can stop people smoking, why can't pro-smoking ones encourage them to continue?

The answer probably lies in his quote from Joseph Goebbels: "Propaganda is about success, not truth." Perhaps Mr Bate is simply rehashing tobacco industry propaganda.

Gerard Hastings, Centre for Social Marketing, University of Strathclyde, 16 Richmond Street, Glasgow G1 1XQ, UK

Let us smokers make our own choice

From Mr Robert Stephani.

Sir, Roger Bate presents a convincing case for keeping tobacco advertising and rejecting the proposed ban. The problem is that none of the health pundits in the European Parliament will ever listen.

For them, the ad ban on tobacco with others on alcoholic beverages, sweets, pharmaceuticals, cars and other disgraceful goods

almost certain to follow - is far from being a rational debate. It is felt as a war between the Evil Empire of Smoking and the Glorious Reich of Non-Smoking, and is a too tempting playground for well-meaning politicians.

Ordinary folk should be thankful for such caring Big Brothers preventing them from being exposed to the abhorrent sight of tobacco ads. However, as smokers we

prefer to make our own choice, so let us be informed. The suppression of the free flow of information has always been one of the prime characteristics of totalitarianism.

Robert Stephani, Vice-chairman, Bundesrat Club Deutschland, Koogstrasse 32, 25541 Brunsbüttel, Germany

Investors surely deserve the big picture on Korea

From Mr Aidan Foster-Carter.

Sir, Your survey on Korea (April 28) was an excellent piece of work. Not even to mention North Korea, at this point in history, is an astonishing dereliction. Suffice to say that, if the north collapses, the burden thrust upon Seoul would make the south's current

financial travails seem puny by comparison.

One might also have thought the north's terrible famine, and Kim Dae-jung's new and more relaxed policy towards Pyongyang, worthy of mention. The south's current restructuring is of course crucial, but it is by no means the full story. Your readers, and indeed

potential investors, surely deserve and need to be given the big picture.

Aidan Foster-Carter, senior research fellow in sociology and modern Korea, Leeds University, 17 Birklands Road, Shipley, W Yorkshire, BD18 3BY, UK

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Not quite the Bundesbank

The European Central Bank is about to be born but many basic decisions, such as appointing a president, have not yet been taken, says Wolfgang Münchau



The euro will become a politically irreversible fact in the next few days. The body that will run it, the European Central Bank, will be born in the next few weeks.

If all goes well, the ECB could then become as powerful as the US Federal Reserve. But as yet, no one knows how it is going to work or quite what kind of institution it will be.

The uncertainty stems from the indecision about who will run it. Wim Duisenberg, the Dutch president of the European Monetary Institute, the ECB's forerunner, is supported by 14 out of 15 European Union countries as the Bank's future president.

But France supports Jean-Claude Trichet, governor of the Bank of France. Although EU leaders hope to decide the matter at their Brussels summit on May 1-3, the deadline is not until the end of June.

Meanwhile, nothing is being done. Basic decisions have been delayed because of disagreements among national central banks. How big should minimum reserve requirements and foreign exchange reserves be? Precisely what monetary instruments should the Bank use? Should it target a measure of money supply, like the Bundesbank, or inflation, like the Bank of England? Who sets the targets and what should they be?

With just days to go before the launch of the euro, these questions remain - believe it or not - unresolved. So the real work will have to start after the ECB is up and running in May or June. Some insiders fear this may not leave enough time.

The delay in the appointment of a president may have done some damage already. Speaking last month, Mr Duisenberg admitted that the uncertainty may have affected a critical aspect of the ECB's chances of success: its credibility. From a central banker's point of view, credibility is what matters most.

Otmir Issing, a senior

member of the Bundesbank's executive board, and a possible German board member of the ECB, argues that public support for the new institution is vital. The Maastricht treaty's emphasis on price stability as the ECB's primary policy objective and its guarantee of central bank independence are necessary components but not enough, he says.

"Every society ultimately gets the rate of inflation it deserves and basically wants," he warns in a recent paper. Like other German central bankers, he is not convinced the ECB will be able to rely on the same public consensus that has underpinned the Bundesbank.

There have already been some attempts to limit the ECB's independence. Central bankers regard French suggestions of a political

The Bundesbank claims to have achieved transparency through the use of an intermediate target; a pre-announced target range for M3, a measure of broad money. The final target, of course, remains price stability. In practice, average consumer price inflation of 2 per cent. The Bundesbank only managed to hit its intermediate target half the time. But central bankers say this is sufficient, as long as the institution is reasonably successful in hitting its principal target: low inflation.

An alternative system is the inflation-targeting approach adopted by the semi-independent Bank of England. It uses no intermediate targets. Instead, policy is based on a published inflation forecast. Monetary policy is set to ensure that inflation meets a target rate,

that its underlying assumptions are wrong or that it cannot (or does not intend to) meet its target.

The ECB is virtually certain to adopt a strategy of borrowing credibility from the Bundesbank. It will not do so in the (former) hope that it can inherit the Bundesbank's track record, but in the sense that it might, over time, achieve a similar track record if it adopted some of the Bundesbank's policies.

This is a view shared by leading economists. Rudi Dornbusch of the US and Carlo Favero and Francesco Giavazzi from Italy argue that: "Week after week, in Germany and throughout Europe, the top layer of the Bundesbank shows up at every conceivable civic or commercial association to explain the importance of sound money, the immediate challenges ahead, the instruments used to achieve and sustain price stability, and the risks of veering from the true path... The ECB leadership will have to do just the same."

The ECB will not, however, replicate all of the Bundesbank's strategies. There will, for example, be no discount rate - a subsidised interest rate through which commercial banks receive fixed contingents of low-interest bearing money. But there will be a German-style Lombard rate - an emergency overnight lending rate. There will also be a deposit rate, the rate banks receive when they deposit surplus overnight funds with the central bank. These two rates will determine the window within which the ECB will fine-tune its policies. In this way, the ECB's operations will not be too different from those of the Bundesbank.

If all goes well, the ECB could end up with the respect of the Bundesbank, and the task of overseeing a currency as big as the dollar. This formidable combination could make it the single most powerful institution in international finance.

Emu: Prospects and Challenges for the Euro is published by Blackwell Publishers, not by the CEPR as we reported in our feature of April 29

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Wednesday April 29 1998

Good and bad

Globalisation poses an undeniable threat to the tax revenues of states in the developed world. Yet as the OECD secretariat points out in its new report on harmful tax competition, it has also prompted tax reforms that have broadened the tax base while reducing tax rates. This has minimised tax-induced distortions to trade and investment.

The fear that corporation tax yields will be driven down to zero by harmful tax competition is also not wholly justified by the numbers. Taxes on corporate income within the OECD have remained remarkably constant as a percentage of GDP over the past 20 years. Why, then, the deep antipathy, especially in Brussels, towards tax competition?

One answer is that governments are finding it increasingly difficult to persuade citizens to finance high levels of public spending through higher taxation. They are thus more sensitive to the potential loss of marginal tax revenue. It is no coincidence that the most vocal states on this score tend to be the ones whose spending takes a very high share of GDP.

More fundamentally, the fear that tax rates will be bid downwards by global competition is, at least in the long run, well founded. The yield from capital taxes has certainly been eroded in some countries as a result of

such pressure. And the preferential reliefs accorded to debt as against equity in all OECD countries ensure that corporation tax is becoming increasingly voluntary as corporate financiers urge tax efficiency on their clients.

The question, then, is how to retain beneficial tax competition while minimising distortions. And the OECD report rightly eschews any assault on generalised competition over tax rates, preferring to focus on tax havens and on preferential reliefs that admit low or no taxation on specific kinds of income.

In the interests of fiscal neutrality, preventing the use of tax concessions to bribe internationally mobile activities towards a given jurisdiction is clearly desirable. Note, though, that the losers from tax competition are often those countries that have been slow to reform inefficient systems. Public choice theorists would argue, too, that havens also provide a useful discipline to prevent predatory states resorting to extreme taxation.

The OECD's call for countries to terminate tax conventions with the worst tax havens is probably pious. As well as a bolt-hole, havens provide a conduit between tax free jurisdictions, for example in the middle east, and the tax paying world. But if the report helps bring a little more transparency and fairness to the system, it will have done well.

Nigerian muddle

Nigeria's crisis goes from bad to worse. Last week an already flawed transition to civilian rule was exposed as a farce when General Sani Abacha, the country's military leader, became the sole presidential candidate.

Yesterday, the country's former deputy leader, Lieutenant-General Abdulsalam Abacha, and four others were sentenced to death for plotting to overthrow General Abacha, a decision likely to exacerbate tensions in the ranks of the military.

Nigeria's political disaster is matched by economic mismanagement. A country that produces 1.5m barrels of oil a day has a fuel shortage because its refineries have been neglected. And its economic woes are set to deepen as the oil price falls well below the \$17 a barrel on which the country's 1998 budget was based, and arrears on its \$34bn external debt continue to climb.

But while Nigeria is in a mess, western policy is in a muddle: talking tough, but acting indecisively.

At their summit in New Zealand in 1995, Commonwealth leaders threatened to expel Nigeria if General Abacha failed to restore democracy by the time they met again. They backed down at the Edinburgh summit last October, although it had long been clear that the modest sanctions imposed - including an arms embargo and a visa ban on

senior regime officials - had failed. At the same time, the summit gave Nigeria a pat on the back for its role in Sierra Leone as the leading contributor to the west African force that restored the civilian government ousted by rebels.

Nor has Washington given a consistent message. During his recent tour of Africa, President Clinton appeared to soften the blunt warning given by a senior official that Nigeria's transition programme was fatally flawed.

Britain, too, is sending mixed signals, doing its best to restore British Airways' air links with Lagos, suspended by Nigeria in retaliation for the UK ban on Nigeria Airways flights to London. Nor has any government called for a sports boycott or the exclusion of Nigeria from the football World Cup. Admittedly, tightening the sanctions screws would be difficult. A ban on air links, for example, would have to exempt Nigeria's neighbours. Freezing assets held abroad would be hard to implement.

But it is not impossible. So when Robin Cook, the British foreign secretary, meets Madeleine Albright, the US secretary of state, in London next week they need to make a start towards creating a more credible western policy towards Nigeria. Until this happens, General Abacha will continue to thumb his nose at world opinion.

UK trade

The idea that the UK economy might be able to gain without pain suffered a reverse yesterday. First, the Confederation of British Industry's Industrial Trends survey showed that manufacturers were more pessimistic about exports than at any time in the last 18 years. Then, as if to confirm these fears, official figures showed a rapid widening of the trade deficit from \$800m in January to \$1.7bn in February.

The rise in the deficit was, to be sure, partly caused by special factors; and over six months the volumes of both imports and exports have been little changed. Even so, the CBI survey makes the latest trade data look very much like a flashing amber light.

For much of last year, the resilience of UK trading performance in the face of a steep rise in the value of sterling presented something of a puzzle. Had British industry become more competitive during the 1990s? Or was it living off the fat of big export margins achieved after the collapse of sterling in 1992?

In either case, it was argued, manufacturers could withstand the stresses of high interest rates and a strong pound better than some of their apologists suggested. However, the trends survey, which has been a reliable indicator in the past, now points decisively downwards.

Expectations for total orders, exports and domestic business are all now much more pessimistic

than a year ago, and the outlook has deteriorated since January. This survey accords with recent official data which suggest that the long-predicted slowing of the economy has begun. Preliminary data for gross domestic product in the first quarter showed a slight deceleration; the growth of retail sales has slowed significantly; growth of the money supply has eased; and unemployment may be falling less fast.

In short, the Bank of England's tight money policy may at last be working in the way it must, by squeezing the suppliers of tradeable goods and services. Does this mean that the Bank should now blow its whistle and declare, as the CBI suggests, that interest rates have reached their peak?

Probably not. For domestic demand is still buoyant; and, despite their protests, manufacturers still enjoy healthy export margins. Meanwhile productivity improvements remain low. Yesterday's survey showed that despite this poor performance, there has been a sharp drop in the forecast expenditures on product and process innovation - and on training.

The weakening of sterling during April may seem to promise a little respite, but the last thing which the UK economy needs at the top of its cycle is a collapse of sterling. The Bank will need to sit tight until companies show better control of their costs; industry must grin and pare it.

"Together with Pride. Together with Hope." This is the official slogan for celebrating Israel's 50 years of independence. There's only one problem. Hardly anyone believes it. Society is fragmenting. There are few, if any, signs of togetherness.

Maybe it has something to do with being 50. Like others at that age, Israel is facing a kind of mid-life crisis. With mixed feelings, it is assessing what it has achieved and what has to be done.

Certainly, much has been achieved. The idea of creating a national home for the scattered Jews, fostered by Russian and east European Zionist movements in the late 1800s and spurred on by the Holocaust, has been realised. Against all the odds, the Zionists won the 1948 war of independence and during the 1950s, still strapped for cash, the Jewish state welcomed hundreds of thousands of Sephardic Jews from north Africa, the Middle East, Iran and Iraq. Now, nearly half of all Jews live in Israel.

At the same time, Israel is richer than Spain or New Zealand. It has a gross domestic product per head of \$16,000 - four or five times more than its immediate neighbours.

It has made the Negev desert bloom, reclaimed the swampy lands in Galilee and, thanks partly to military research and development, partly to the immigration of more than 850,000 highly skilled Russians during the early 1990s, has created a world class high-tech sector. Even allowing for the billions in aid pumped in every year by the US, the Jewish diaspora and German war reparations, this is an extraordinary feat for a narrow slice of land hugging the Mediterranean coast.

To these domestic achievements can be added some regional ones. Israel is the area's superpower. In a military sense its place in the world is secure. That could not have been taken for granted 50 years ago. A peace, albeit a cold one, was made with Egypt in 1979, and later in 1984 with Jordan.

There is, though, no peace with Syria or Lebanon. And a comprehensive peace, embracing an Israeli-Palestinian agreement, eludes Israel.

But there is something more important than this for the country's future. Israel is not merely not at peace with some of its neighbours. It is not at peace with itself.

And it is this - rather than the "non-peace" environment that explains why Israelis have mixed feelings about celebrating their 50th birthday. They are unsure about the survival of their democracy because the achievements over the past 50 years have not brought domestic cohesion.

"We thought we could keep society together until there was peace with the Palestinians," says Moshe Lissak, sociology professor at the Hebrew University. "But the consensus is breaking down. Society is fragmenting."

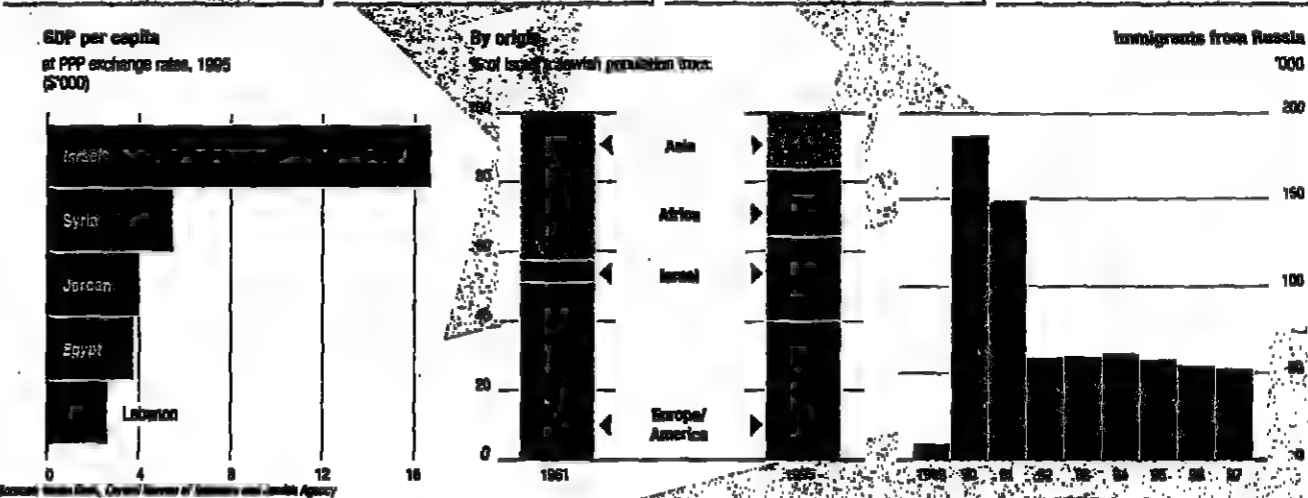
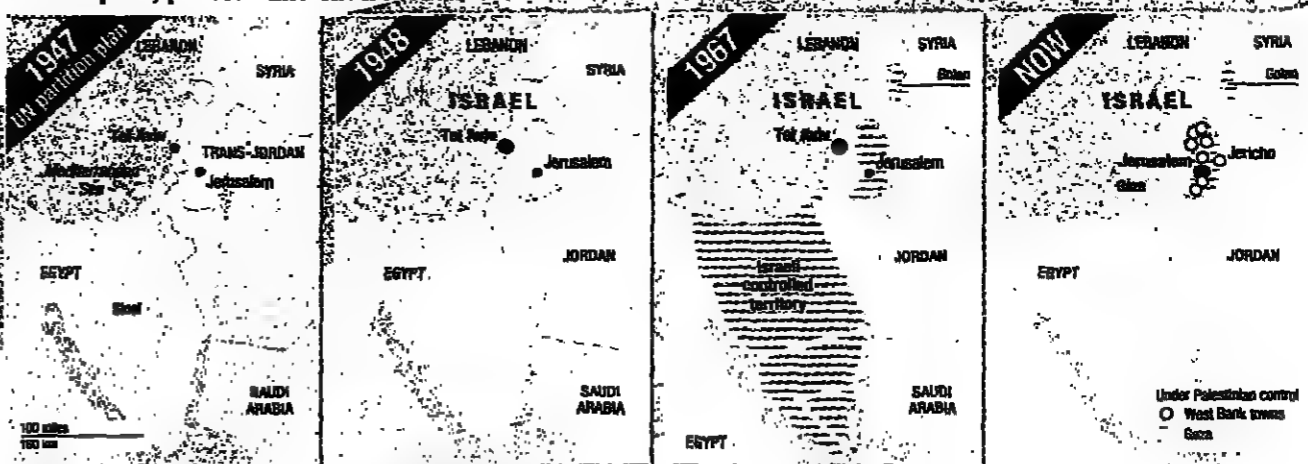
In a society made up of so many diverse backgrounds, it is hardly surprising that there are divisions that cut across religion, ethnicity and race. Indeed, there may even be some advantages to this.

As Benjamin Netanyahu, the prime minister, puts it: "The founders of modern Israel - some

Fault lines at 50

Divisions within Jewish society have prevented Israel being at peace with itself, and overshadow its economic and military achievements, argues Judy Dempsey

Israel: past, present and future?



of them believed we should have one blueprint of one Israel. Out from one cloth. That they should all conform. This was false to begin with. Israel is showing it is much more vibrant."

The trouble comes when, as Mr Lissak believes, the divisions become deeper. They then challenge the country's democratic base.

A recent opinion poll by Tel Aviv University showed that for the first time, internal divisions in Israel - especially the growing differences between religious and secular Jews - worried Israelis more than the fate of the peace process.

Take the secular and religious rifts. Secular Jews are increasingly fed up with the privileges of the Haredim, the ultra-Orthodox community. Haredi boys, for example, do not serve in the army. Instead they spend years studying in the Yeshivot, the religious schools, at taxpayers' expense.

Women's groups - secular and religious - are angry about widespread discrimination. For example, they have waged a campaign against Israel's Orthodox Chief Rabbinate that sets the rules for marriage and divorce. They want to end the system of *agunot* - which literally means an "anchored woman" - whereby a woman abandoned by her husband may not file for divorce and therefore cannot remarry.

And secular Jews, those who do not observe the Sabbath or Judaism's strict dietary laws, believe it is time Israel allowed civil marriages. At present, every couple wishing to marry legally must do so in a religious ceremony conducted by an Orthodox rabbi; marriages between members of different religions are not permitted.

For years, secular Jews tolerated the privileges and the discrimination. After all, these things go back to the founding of

the country, when relations between the rabbinate and the state were left deliberately vague. But secular Jews are losing patience because the religious parties, now entrenched in the conservative camp, have grown politically stronger; they hold the balance of power in the government. It means they are in a position to extract more concessions even though the Haredim make up only about 10 per cent of the population.

There is another dimension to the growing power of the religious parties and the divisions that come in the wake of that power. It is related to the ethnic conflict between the Ashkenazim - Jews from Russia and Europe - and the Sephardim.

This conflict is becoming sharper as Shas, the ultra-Orthodox Sephardic party, is gaining political influence through tapping years of pent-up frustration among Oriental Jews. Shas holds 10 seats in the 120-member Knesset.

The party's leaders believe the Sephardim have been discriminated against by the Ashkenazim who, since the establishment of Israel, have dominated the elite, whether it be the media, the judiciary, the arts, the military or the civil service.

"The secular Ashkenazim looked down on us in the past," said Shlomo Ben-Zur, a charismatic Shas leader and deputy health minister. "They mocked our culture and our religious traditions. It is time to redress the balance."

The trouble is that in redressing past grievances, Shas would also prefer to have the Ashkenazim, Jewish religious law, take the place of civil law. Mr Ben-Zur, a former fashion model turned rabbi, has often said he would replace the civil courts with Halachic courts and have a political system based on the Torah.

This trend towards religious

fundamentalism has its critics and divisions within the various strands of Judaism. The liberal reform, conservative and traditional Jews, while respecting the Halacha, do not want it to prevail over civil law. And they have their own running dispute with the Haredim over births, marriages and burials.

Reform and conservative rabbis, who stress the diversity of the Jewish religion, believe it is time the Haredim - through the Orthodox Chief Rabbinate - end their monopoly over births, conversions to Judaism, marriages and burials. It is that monopoly that allows the rabbinate alone to determine who is a Jew.

But while these arguments among Jews go back and forth, Israel's largest minority of non-Jews - the Arabs - remain second-class citizens. Many Israelis tend to believe that the Arabs have little to complain about because they are better off living in Israel than in any other Middle East country. The reality is that Arabs are not treated the same as Jews.

Arabs are banned from serving in the army. They are not given equal access to education or funding for their local councils. And they face any number of restrictions when they want to build a home or buy a plot of land.

"Discrimination exists because Israel is not a state for all its citizens," claims Azmi Bishara, a parliamentary deputy for Hadash, the Israeli-Arab left-wing party. "Israel has still not defined the character of the state. Should it be a state of Jews or a Jewish state?"

It is no wonder all these divisions and inequalities haunt the defenders of Israel's civil society since they fear the country's democratic institutions may not be strong enough to overcome divisions that could lead to civil strife. The assassination in

November 1996 of Yitzhak Rabin, the former prime minister, by a religious fanatic, was - and is - a reminder both of how vulnerable these institutions can be and of the depth of Israel's divisions.

"The challenge facing us is how to reconcile Judaism with democracy," says Mordechai Kremnitzer, law professor and member of the Liberal Institute for Democracy. "We have to ask ourselves if it is possible to build a society of citizens. Of Israelis? Can we create equality for all the people living here?"

A group of academics and politicians tried to answer this question by introducing into the curriculum courses on what it means to be a citizen. It ran into problems because there is no uniform school system at the elementary level.

The Haredi state-funded schools do not teach their children anything about western liberal democratic values. The (Zionist) National Religious party schools want more "Jewish values" to be taught to children. Secular teachers want more civil values to be taught in all schools. Meanwhile the Shas schools extol the virtues of the Halacha and Sephardic culture.

The result is that the fault lines and divisions running through Israeli society start in the school. "Children are not being given the choice to learn about other value systems," says Varda Schiffer, a political scientist at the Hebrew University.

"With such a system, how are we going to combine democratic and liberal values with Judaism among future generations?"

That is why the fragmentation of Israel entails so many dangers. If it continues apace without the state strengthening its democratic institutions, the slogans of pride and hope will not be enough to keep Israel together as it begins its next 50 years.

OBSERVER

Cartoon capers

France's centre-right Rally for the Republic (RPR) party seems to have lurched from catastrophe to fiasco since its electoral defeat last May - itself triggered by the surprise dissolution of parliament by former RPR leader President Jacques Chirac.

Last week the party mystified much of the country by proposing to vote against the legislation for the single European currency which it had itself advocated while in power - the newspaper *Le Monde* ran a front-page cartoon portraying RPR leader Philippe Seguin explaining: "We are against because we are in favour, and vice versa."

The party then tried to use a little self-mocking humour on its own account, but even that backfired. At a weekend rally designed to boost morale, it displayed a poster depicting party infighting as a village punch-up featuring the characters from Asterix - a popular comic series based around a moustachioed fighter against the Roman occupation of ancient Gaul.

The slogan was: "Are you fed up with having the stupidest ruling party in the world? We are too!" The party of business might have been expected to understand about intellectual property, but the RPR has had to send one of its top brass to try to make peace with Albert Uderzo, the creator of Asterix, who was telling all and

sundry yesterday how unhappy he was with the unauthorised use of his principal character, allowed his characters to be associated with party politics or alcohol, because Asterix was aimed at children. The way the RPR is carrying on, targeting an infantile audience isn't too far off the mark.

Founder's feast

If Sir Ron Brierley, New Zealand's stamp-collecting corporate raider, enjoys the occasional dollop of *Schadenfreude*, he must have had a chuckle yesterday.

Not only did Bob Matthews and Paul Collins, the former protégés who had a hand in bouncing him out of Brierley Investments (BI), in 1989, fall on their swords, they did so after a performance review they initiated themselves - there's nothing quite like engineering your own downfall.

Ever since the founder's departure, investors have been making unfavourable comparisons between the old and new regimes. While BI, plodded - and sometimes stumbled - along a less rewarding path, Sir Ron took his own buccannering ways to Guinness Peet Group, where he has been giving shareholders a run for their money.

Recent rumours that Sir Ron was planning a comeback - roundly denied by BI - may simply have been a symptom of the level of investor discontent.

It's now up to Sir Roger

Douglas, the former miracle-working New Zealand finance minister and long-time non-expat at BI, to scour the world for a new chief executive. Whoever he comes up with will have his or her work cut out to exorcise the ghost of Sir Ron.

Advanced driver

Hiroyuki Yoshino, Honda's president-elect, will have a hard act to follow when he assumes the top job at Japan's hottest car company in the summer.

The domineering Nobuhiko Kawamoto surprised many people by his announcement that he was standing down: at 62, he was two years over the company's official retirement age, but looked as if he had a few more years in him. He has been firmly in the driving seat at Honda since his main rival, Shirochiro Imajiri, once seen as Honda's crown prince, has been with Segal ever since, and early this year was appointed the games company's president.

Kawamoto is credited with taking just eight years to turn an also-ran in the domestic market into Japan's most talked-about company. It has overtaken Mitsubishi to become the nation's third-largest carmaker and, as sales in Japan sagged at the end of last year, it even surpassed Nissan for two months.

On the way, he pulled Honda out of Formula One car racing - a painful decision for a dedicated

engineer. This year, he announced the time had come to come back out of the pit on to the Grand Prix circuit, a decision his successor has been quick to confirm. Yoshino, who trained as an aeronautical engineer, now has to emerge from Kawamoto's slipstream. With the Japanese car market stuck on the hard shoulder, he'll be expected to keep Honda motoring in the fast lane.

Low flier

When a national carrier goes on the block, you expect the big boys of the airline world to take an interest, and the bidding for Air Uganda is no exception: Sabena and British Airways are in there mulling it with Air Mauritius, Kenya Airways and a couple of other operators.

Air Uganda only has one plane, and leases two - neither of which are working at the moment. It gamely says that its assets are its staff and its routes.

That sounds a bit of a headache for the buyer's operations people, but it's nothing to what's facing the finance department. The airline "has huge liabilities" and owes money to the International Air Transport Association, says privatisation unit director Michael Opaig.

"We had difficulty with the auditor-general accepting the airline's accounts over the last three years," he says. "What we have are tentative figures." Sounds like an interesting buy.

Financial Times

100 years ago

The World's Coal
The annual statistics for production of coal show that Great Britain is the largest producer and exporter. The greatest producing countries in 1896 were Great Britain, with 195,351,000 tons; the United States, with 171,416,000; Germany, with 85,690,000; France, with 28,750,000; Belgium, with 25,252,000; Austro-Hungary, with 11,033,000 tons; Russia, 9,229,000; and Japan, 4,849,000 (in 1895). All these countries show an increased production as compared with the previous year, except the United States, which has fallen off to the extent of slightly over a million tons.

50 years ago

U.S. Business Prospects
Washington, April 28. Mr Edwin G. Nourse, chairman of President Truman's Council of Economic Advisors, says defence and foreign spending should mean several years' full production, employment and business prosperity. But high prices and perhaps a disturbing tax increase may be necessary, and inflationary pressures may become menacing. Without defence and foreign aid, says Mr. Nourse, domestic business would have sagged with a mild recession this year.

THE LEX COLUMN

Credibility gap

The squabble over the European Central Bank president is hardly edifying. Unfortunately, it matters. Few observers think the actual choice will have a big effect on the ECB's commitment to fight inflation in euroland. Both main candidates - Dutchman Wim Duisenberg and Frenchman Jean-Claude Trichet, as well as possible compromise candidates - have reputations as tough central bankers. The concern is rather that squalid side-deals might be needed to break the impasse.

One worry is there could be a deal to split the eight-year term between the two main candidates. In itself, a switch of president after four years would not be disastrous - though it would stop the candidate maturing into the job in the way, say, that Alan Greenspan has at the US Federal Reserve. The real objection is that such a deal would go against the Maastricht Treaty and therefore have to be quasi-secret.

A backroom deal about how a supposedly independent central bank will be led is hardly the best way to establish its credibility.

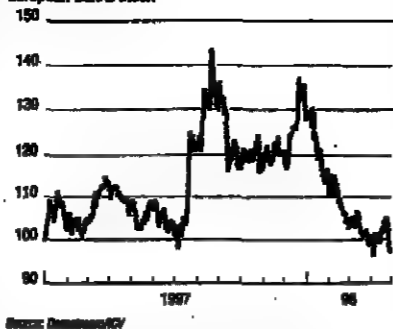
Another worry is that France may insist on beefing up the "Euro-X" council as a *quid pro quo* for abandoning Mr Trichet. France's exact plans for Euro-X, an informal council of euroland's finance ministers, are murky. If it is simply to be a committee for co-ordinating countries' fiscal policies with the ECB's monetary policy, that would be useful. The concern is that France has grander ambitions to establish Euro-X as a full-blown political counterweight to the ECB. That would further undermine the bank's independence.

Commerzbank/Korea

Will Commerzbank be the first foreign bank to take a significant stake in a Korean commercial bank? Right now Germany's number four is being rather quiet about suggestions that it will inject DM500m into Korea Exchange Bank. But whatever comes of this deal, it will surely not be the last foreign name to enter the arena. Fourteen of Korea's 16 commercial banks failed to meet international capital standards at the end of 1997. They have until June to show how they will change this, failing which mergers or closure will follow. Foreign capital, of course, would

Commerzbank

Share price relative to the Dax/Reuters European Bank Index



reduce the estimated \$20bn restructuring tab which would otherwise fall on taxpayers.

Foreigners are not falling over each other in a rush to invest. And with good reason. A shrinking economy will drive non-performing loans as high as 30 per cent of total lending. Large swathes of low margin *choebol* lending are hardly an exciting prospect. Moreover, the industrial relations climate will make the sort of retrenchment necessary to boost returns very difficult.

Commerzbank's existing commitments may encourage it to take a bet on the future. Others, though, may wait for government to sweeten the package before stepping in.

Jefferson Smurfit

At last Jefferson Smurfit seems to have cracked the stalemate surrounding its US offshoot, Jefferson Smurfit Corporation - long a (paper)weight around the Irish packaging group's neck.

The problem with JSC, which produces containerboard and newsprint, has always been its ownership structure rather than its performance. When Smurfit acquired JSC back in 1986, it was too small to purchase it outright, so it structured the deal as a leveraged buy-out and brought in Morgan Stanley as a partner. The advantage was that, with just a 46.5 per cent stake, Smurfit has not had to consolidate JSC's \$2bn debt. But the lack of control has prevented it from making any strategic moves. Now Smurfit has found

an elegant way around that. It plans to buy a big chunk of Morgan Stanley's 35 per cent and then immediately merge JSC with fellow paper group Stone Container. Such a deal would benefit all sides. Morgan Stanley gets out of a non-core holding, JSC and Stone together would be by far the biggest containerboard producer in North America. And there should be savings from introducing JSC's more efficient working practices to the loss-making Stone and closing some of the latter's older capacity. The combined company would still be highly indebted, but should have a more stable future. And since the US market determines global containerboard prices, a tighter market there should bring benefits to Smurfit worldwide.

British Biotech

Perpetual should be congratulated on throwing down the gauntlet to the British Biotech board, notably Keith McCullagh, chief executive. Backing the sacked Andrew Miller, who is portraying himself as a whistle blower, clearly carries big risks. By definition, his allegations are further damaging the credibility of both the board and the drugs pipeline, knocking the shares back further. More cautious shareholders would shy away from such boat rocking and point to the difficulty of replacing Mr McCullagh if his head is called for.

But it looks too late to perform a damage limitation exercise of the smoothing-over variety. The questions raised about Mr McCullagh's management of the company are serious enough to warrant a proper airing. Leaving aside the issue of share dealings, he needs to answer the allegation that he misled the market with over-optimistic assessments of drug prospects. He also faces criticisms of his strategy and his handling of Dr Miller. Having left the field to his adversary for so many days, it has become harder for him to restore credibility.

Composing a circular to shareholders is not enough. Investors have the right to see the wisdom of Mr McCullagh's eyes and cross-question him. So Perpetual's scheme for an extraordinary general meeting should be backed. Unless he can provide a convincing live rebuttal of the allegations, he will deserve to go.

Hong Kong authorities seize \$90m of pirate CDs

Music and film groups join crackdown on illegal software makers

By Alice Rawsthorn

Hong Kong authorities have seized more than \$90m of illicit compact discs and unauthorised production equipment in the world's biggest-ever software piracy haul.

The raid, which started in the early hours of Monday morning and continued yesterday, involved the arrest of 16 people, including a senior Hong Kong customs official who allegedly accepted bribes from the piracy ring.

Among the equipment seized was machinery used to make digital video discs, the new discs that play films at far higher quality than video cassettes. This is the first time DVD production equipment has been impounded.

The Hong Kong haul forms part of a global effort to crack down on software piracy, following an increase in sales of unauthorised compact discs, CD-Roms and video cassettes. Hong Kong, traditionally a prime source of illicit software, recently passed tough anti-piracy laws.

Until recently pirate manufactur-

ers tended to concentrate on making cassette tapes, which are far less profitable for record companies than compact discs.

Over the past year, many pirates have switched to compact discs, following a sharp fall in the cost of manufacturing equipment. Meanwhile, the slowdown in global music sales has prompted once-legitimate disc manufacturers to supply unauthorised products.

The International Federation of the Phonographic Industry, which represents the world's record companies, estimates that one in three music products is pirated. It has responded by expanding its anti-piracy team.

The IFPI mounted this week's haul in concert with the Motion Picture Association of America, the trade body of the US film studios, and Hong Kong's Independent Commission Against Corruption.

In the early hours of Monday morning, officials raided four factories and a warehouse in the Fanling area of Hong Kong, near the Chinese border. All five units are owned by

Science Technology Research, a Hong Kong-registered company.

The equipment seized had the capacity to produce up to 1.2m audio compact discs and video compact discs a day. More than 7m pirated discs were also impounded, as well as the DVD production equipment.

Eleven people were arrested on Monday morning, and another five arrests have since been made. Two containers bound for China holding a total of 1m compact discs have also been seized.

The music industry also faces an increase in the illicit distribution of music across digital transmission systems such as the Internet. Albums and single recordings are now often posted on pirate internet jukeboxes within hours of release. Consumers can download digital versions of songs directly on to computers, often for free, within minutes.

Record companies plan to launch their own digital distribution systems, but are nervous about doing so until the necessary technical and legal protections are in place.

Nigerian court sentences six to death for plotting a coup

By Michelle Wrenn, Africa Correspondent

Nigeria's political crisis deepened yesterday when a special court sentenced the country's former deputy leader and five other men to death for plotting to overthrow military president Sani Abacha.

In a ruling likely to heighten domestic unhappiness with the regime and further alienate a hostile international community, the tribunal in the northern town of Jos found Lieutenant-General Odiako Diya, four army officers and a civilian guilty of treason and sentenced them to die by firing squad.

The former second-in-command had denied plotting a December 20 takeover. He told reporters he had been "set up" in a plot going "right to the top".

But his words were yesterday dismissed by the tribunal's presiding officer. "He presided over and actively participated in several meet-

ings in which the coup was discussed," said General Victor Mahu. "There was no charge for initiating a coup plot and as such it was not necessary to inquire into who initiated the conspiracy."

Human rights groups had asked for proceedings against a total of 80 detainees to be made public, and western governments had appealed for a transparent trial. But most of the case was heard behind closed doors.

The verdicts must be ratified by General Abacha and his ruling military council. But, following the 1995 hanging of Ken Saro-Wiwa, the minority Ogoni activist, which triggered foreign sanctions, there can be little doubt about the president's readiness to brave international condemnation.

Domestic opinion is more likely to be a consideration weighing in favour of clemency. The ruling was made three days after the public had demonstrated its disillusionment

with Gen Abacha's unfolding campaign to stand as sole civilian candidate in the forthcoming presidential elections by snubbing national assembly polls.

The stay-away was not confined to the commercially-developed south west, from where all the condemned men originated. There was a similarly low turnout in the north, the military's traditional heartland, suggesting frustration at the economic crisis and at the increasingly repressive political climate had crossed Nigeria's ethnic boundaries.

Booyed by the success of its boycott call, Nigeria's opposition has called for a day of mass action on Friday.

Carrying out the sentences would almost certainly increase the likelihood that Gen Abacha will cling to power, as stepping down would carry the risk of retribution from the coup-plotters' supporters.

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Belgian prime minister Jean-Luc Dehaene faces three motions of no confidence over the escape of a suspected paedophile killer. Page 4

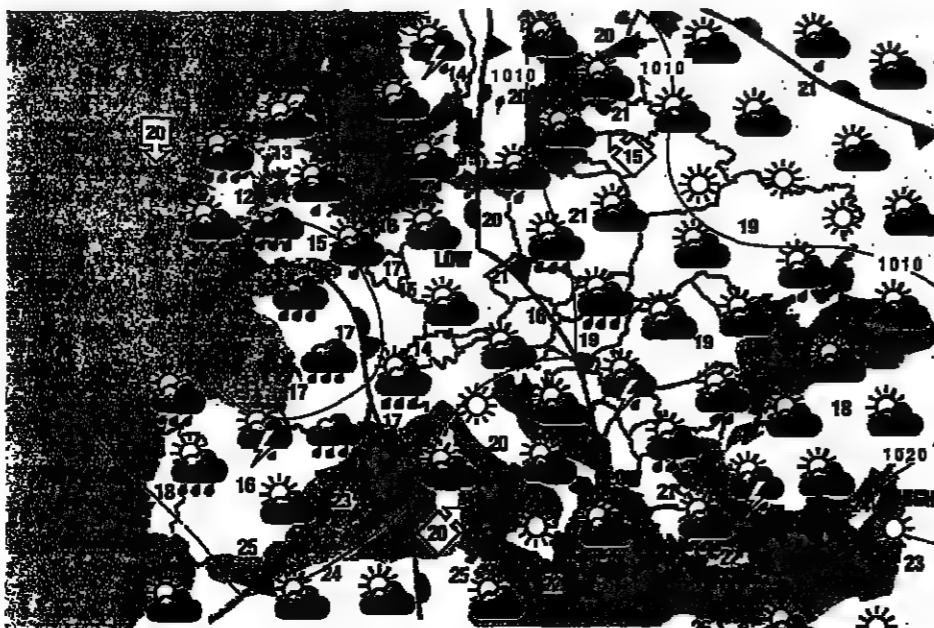
FT WEATHER GUIDE

Europe today

Much of Europe will be unsettled and showery. Western France will be cloudy with long periods of rain. Eastern France, the Low Countries and western Germany will be brighter with isolated afternoon showers. Eastern Germany and much of Scandinavia will have showers and some thunder, but along the Baltic coast it will be warm and sunny. The Iberian peninsula will have a mix of sun and showers. Greece will be unsettled with heavy rain and thunder, but Italy will be mainly dry with sunny spells.

Five-day forecast

Most of France, the Low Countries and Germany will have further rain, but by Sunday there should be an improvement. The western Mediterranean will stay unsettled. The east will become dry, although more showers are likely by the end of the weekend.



Situation at midday. Temperatures maximum for day. Forecasts by **FT WEATHER CENTRE**

TODAY'S TEMPERATURES

Madrid	Barcelona	Shower	21	Cerats	Rain	31	Frankfurt	Rain	16	Manjara	Sun	22	Shanghai	Fair	7		
Cebu	Beijing	Fair	20	Cailli	Rain	13	Guilin	Shower	12	Shanghai	Sun	22	Shanghai	Fair	7		
				Casablanca	Cloudy	21	Guilin	Shower	12	Manchester	Shower	15	Yokohama	Fair	20		
Alta Dreibl	Sun	32	Belmont	Shower	13	Chicago	Rain	19	Glasgow	Shower	13	Maria	Fair	31	Prato	Fair	24
Acra	Sun	32	Belfast	Thunder	19	London	Rain	19	London	Shower	13	Malacca	Fair	31	Seoul	Fair	22
Algeria	Fair	18	Beijing	Shower	20	Osaka	Sun	26	Helsinki	Fair	20	Manila	Fair	30	Shanghai	Fair	20
Amsterdam	Fair	16	Berlin	Shower	21	Dallas	Sun	32	Hong Kong	Shower	19	Miami	Shower	30	Stockholm	Fair	20
Athens	Thunder	21	Bombay	Thunder	21	London	Thunder	21	London	Shower	19	Moscow	Fair	19	Strasbourg	Fair	17
Bahia	Thunder	21	Bombay	Fair	33	Dubai	Sun	33	Int'l	Shower	19	Montreal	Shower	19	Taipei	Fair	20
B. Aires	Rain	19	Buenos	Thunder	17	Dublin	Shower	12	James	Rain	13	Moscow	Fair	21	Tangier	Shower	21
Buen	Shower	14	Budapest	Thunder	19	Edinburg	Fair	13	Johnsburg	Sun	22	Nanjing	Shower	12	Tel Aviv	Sun	28
Bangkok	Thunder	37	Chigai	Shower	15		Shower	13	Kuala	Shower	13	Nanjing	Shower	12	Tokyo	Fair	22
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									L. Angeles	Sun	29	Naples	Fair	19	Toronto	Shower	18
									Los Angeles	Sun	29	Naples	Fair	19	Toronto	Shower	18
									New York	Sun	29	Naples	Fair	19	Toronto	Shower	18
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COMPANIES & FINANCE: THE AMERICAS

MANUFACTURING BELLWETHER OF US ECONOMY SLIPS TO \$400m AFTER TAX IN THE FIRST QUARTER

3M hit by strong dollar and weak Asia

By Nikid Tait in Chicago

Minnesota Mining & Manufacturing (3M), the big US manufacturing group seen as a bellwether of the US economy because of its wide range of products, yesterday reported a dip in first-quarter profits as the strong US dollar and weak Asian economies took their toll.

3M said it made \$400m after tax in the first three months of 1998, down from

\$410m, with sales slipping to \$3.7bn from \$3.71bn.

However, this translated into earnings per share of 98 cents, a cent higher than a year ago - and in line with analysts' forecasts.

The company estimated that earnings would have been 10 cents higher had it not been for unfavourable currency movements.

It calculated that currency changes depressed sales by about 5 per cent.

3M remained upbeat about full-year prospects, saying its "traditional bellwether businesses" in the US were indicating continued "reasonable growth", and that this should lead to "good US results for the year as a whole". Internationally, it said it was looking for "continued solid volume gains in Europe and Latin America", plus "a slow pick-up in growth in the Asia-Pacific area".

Wall Street marked the shares - one of 30 stocks that make up the Dow Jones Industrial Index - 3 1/2 higher at 91 1/4 in early trading.

3M saw US sales volumes dip 1 per cent - but this was due to the sale of the outdoor advertising business. The company said there was an underlying 2 per cent gain, which compared with a 12 per cent rise in the first quarter of 1997.

Outside the US, growth was more substantial: volume overall was up 8 per cent, led by double-digit gains in Europe and Latin America, although offset by difficult conditions in Asia. 3M added that cost controls had lifted the results, with operating profits at 18.4 per cent of sales, despite currency movements depressing operating margins by about one percentage point.

The company alarmed Wall Street last year, when it warned fourth-quarter earnings would be below expectations because of the dollar's strength and softening sales in some international markets. Although its shares fell sharply at the time, they have since recovered. According to the First Call research firm, analysts expect 3M to post double-digit earnings growth in 1998.

Wall Street wakes up to Airtouch's European assets

Shares in America's biggest wireless telephone company have surged in recent months, reports Richard Waters

A surge in the popularity of mobile telephones on the other side of the Atlantic has finally lifted the fortunes of America's biggest wireless telephone company.

For most of its independent existence, Airtouch Communications - spun off by San Francisco-based Pacific Telesis at the end of 1993 - has lived under something of a cloud. A year ago its stock, at about \$25, was no higher than when it first became independent.

"I don't think people appreciated our international strategy," says Sam Ginn, chairman. "There was a US-centric view on Wall Street. We were investing millions [overseas], and we were getting penalised."

Those investments, which amount to one of the most ambitious international pushes by a US telecoms company, included substantial stakes in a range of European start-ups (see chart) as well as holdings in Japan, South Korea and India.

Things have certainly changed. Airtouch's share price has taken off in recent months. "The stock has traded on the momentum from Europe," says Colette Fleming, an analyst at Morgan Stanley Dean Witter,

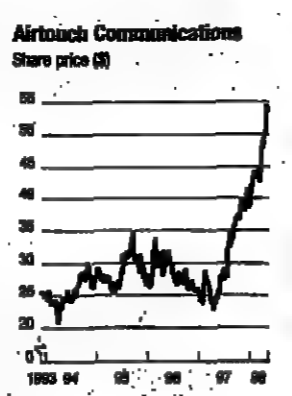
with Wall Street's enthusiasm a delayed reaction to news that had already been emerging on the other side of the Atlantic.

Last week brought the latest confirmation that these overseas ventures were now adding customers - and turning cash flow positive - at a rapid rate. Based on its proportionate holdings abroad, Airtouch can now claim 3.6m customers overseas, a rise of 88 per cent from a year ago. Foreign customers already account for 43 per cent of the company's total, and are increasing far faster than the 28 per cent growth of its more mature US operations.

This increase in customers contributed to a 72 per cent jump in operating cash flow from overseas in the first quarter, to more than \$250m. "It turned out that the rest of the world was for real," says Mr Ginn.

While the prospects for international growth are likely to dominate Airtouch's future, though, Mr Ginn will have to tackle a very different issue when he faces Wall Street analysts today: how it can maintain its enviable profit margins at home amid an onslaught from new competitors.

The company's current plan is to extend its regional



Airtouch's biggest investments

Company	Country	Pop'n (m)	Ownership (%)
European Holdings	Sweden	8.8	51.7
Telecel	Portugal	9.9	50.9
Mazdaemon Mobilink	Germany	81.8	34.8
Belgacom Mobile	Belgium	10.1	20.5
Airtel Mobile	Spain	38.2	18.7
Omnicel Pronto Italia	Italy	57.3	15.8

Source: Company / JP Morgan



Sam Ginn: "We've gotten to be a valuable collection of assets"

cities like Denver, Minneapolis and Seattle.

The two companies had already run operations jointly under a single brand. A full merger, though, will bring the scope for cost-cutting.

A larger customer base would spread the fixed costs of the wireless networks more widely: the company aims to bring its average monthly costs per customer down to \$20 by the year 2000, from \$23 now - a level that could start to make the company competitive with traditional landline carriers.

That would represent one answer to a question that has always dominated Airtouch's pure wireless strategy: how can it compete with full-service carriers that provide a bundle of local and long-distance services, along with Internet and even cable television?

Mr Ginn's response: cheaper wireless services will increasingly draw traffic away from traditional telephone networks. The trick is to use a wide range of pricing packages to draw in different users, depending on whether they are mainly local callers, use long-distance services or want to roam beyond their local area.

As for services like cable television, he remains an unabashed critic of attempts to cross-sell communications services, comparing them to failed efforts in other industries like Sears Roebuck's failed foray into financial services.

Despite recent headway, though, the national network - and brand - still eludes Airtouch. And, as Mr Ginn admits: "If you're to be a competitor in the US, you have to be nationwide - otherwise you'll be in the second tier."

To give it national coverage, the company relies on an accord with Bell Atlantic, the Baby Bell that dominates the north-east, and its 50 per cent stake in PrimeCo, a new digital wireless carrier. But efforts to persuade Bell Atlantic to adopt a joint brand for wireless have so far failed.

The surge in Airtouch's share price, lifting its stock market value to more than \$25bn, may at least have pushed it beyond the reach of potential predators and bought it time to pursue its independent strategy. A year ago, it appeared an easier target. But Mr Ginn can say with some confidence now: "We've gotten to be a very valuable collection of assets."

NEWS DIGEST

STEEL

Bethlehem Steel posts sharp recovery in quarter

Bethlehem Steel, the second largest steelmaker in the US, yesterday reported a sharp recovery in first-quarter earnings, to \$80m after tax, compared with just \$38m in the same period of 1997. Earnings per share of 51 cents were well ahead of analysts' expectations, and compared with 25 cents a share in the same period a year ago.

Bethlehem said it had enjoyed "good levels of steel demand", while profits had benefited from the elimination of losses in businesses now restructured. It also suggested that demand for steel in the US should remain strong in the months ahead, forecasting that domestic shipments for the industry overall would be around 103m tonnes, close to the 105m tonnes shipped last year.

But it warned that competition would continue as new capacity came on stream, and said the Asian financial crisis was still creating uncertainty. Nikid Tait, Chicago

GOLD PRODUCTION

Placer Dome advances

Increased production and lower costs enabled Placer Dome, the Canadian gold producer, to lift first-quarter net earnings to US\$17m, or 6 cents a share. The outcome - in line with expectations - compared with earnings of \$14m, or 5 cents, in the first quarter last year. The company said gold output in the quarter rose from 535,000oz to 538,000oz, while total production costs fell from \$303 to \$259 an ounce. Analysts said the company, like others in the industry, had sold higher-cost mines and brought into production lower-cost sites.

John Wilson, chief executive, said the company had reduced production costs by almost as much as the decline in the gold price, which fell below \$300 an ounce last year before recovering slightly. The company's operating cash flow increased from \$82m to \$108m in the quarter.

Placer Dome said it had started a feasibility study for the Aldebaran gold and copper property in Chile, in which it has a 51 per cent interest. The ownership of Placer Dome's Las Cristinas mine in Venezuela, however, continues to be the subject of a legal challenge by Crystallex, a competing Canadian mining group. Scott Morrison, Toronto

JEFFERSON SMURFIT

Cardboard unit in merger talks

Jefferson Smurfit, the Irish multinational paper and packaging group, yesterday confirmed that its US corrugated cardboard unit, Jefferson Smurfit Corporation, was in talks about a \$3.5bn merger with Stone Container, maker of the US cardboard market. It said the two companies were discussing a "stock for stock business combination", but warned there could be "no assurance that such discussions will continue or will result in any definitive statement regarding such a business combination".

Shares in Stone, listed on the New York Stock Exchange, rose 3 1/2 to \$15 1/2 in early trading. However, those in JSC, quoted on Nasdaq, fell 3 1/2 to \$20 1/2. Jonathan Ford See Lex

CONTRACTS & TENDERS

APV RT.

HUNGARIAN PRIVATIZATION AND STATE HOLDING COMPANY

INVITATION TO BID

1. On behalf of the Minister of Industry, Trade, and Tourism, who exercises ownership, the Hungarian Privatization and State Holding Company (hereinafter referred to as "the Caller" or "APV Rt." headquarters: 1133 Budapest, Fozsonyi út 56.) is hereby announcing a single-round open tender for the purchase of the state owned share package, which constitutes 81.4% of the shares (with a nominal value of HUF 2,550,355,000) of Hungexpo Városi és Régió Részvénytársaság (hereinafter referred to as "the Company" headquarters: 1101 Budapest, Albertfalvi út 10.; company registration no.: CG 01-10-041503).

On December 31, 1996

The Company's issued share capital was

HUF 3,133,735,000.

The Company's shareholders' equity was

HUF 3,574,869,000.

The Company's shareholders

The Hungarian State 84%

Local governments 16%

* Pursuant to Law LXXVI of 1997, one preferential voting share will remain in the long-term ownership of the Hungarian State.

APV Rt. allocates a part of this share package, which has a nominal value of HUF 2,550,355,000 and represents 81.4% of the issued share capital, for the employees of Hungexpo Rt. The allocated part has a nominal value of HUF 200,052,000 two hundred million fifty-two thousand HUF and represents HUF 6.58% of the issued share capital. Hungexpo Rt.'s employees are entitled to take advantage of their right to purchase shares within 60 days of the day on which APV Rt. announces its offer to sell.

2. Bids can be submitted for the purchase of the Hungexpo Rt. share package that represents 75% + 1 vote and has a nominal value of HUF 2,350,303,000. Bidders must undertake the obligation to purchase the share package that was allocated for the employees at the price and in accordance with the conditions that is specified in their bids. The winning bidder is obliged to purchase this share package if the employees do not wish to take advantage of their opportunity to acquire ownership or if they do so only partially.

3. A condition for the bid's validity is that the bidder is obliged to make a capital increase with a nominal value of at least HUF 3 billion in cash from outside sources within 180 days of the day on which the contract is signed.

4. Bids must be submitted in Hungarian in five counterparts each. They must be submitted in a sealed unmarked envelope at the address indicated below. Foreign bidders are entitled to submit their bids in English or German in addition to the Hungarian; the Hungarian counterpart, however, will prevail. Bids must be submitted, either in person or by proxy, during the available time and in the presence of a notary public. The following text must appear on the envelope:

"PÁLYÁZAT HUNGEXPO RT."

5. Bidders must mark the original counterpart "EREDETI" [Original]. Should a bidder fail to do so, the Caller will choose one of the counterparts to serve thereafter as the original counterpart. If there is any difference between the counterparts, the contents of the counterpart that is so marked will prevail.

6. Bids must be submitted on Wednesday June 10, 1998 between 12:00 noon and 2:00 p.m.

Bids are to be submitted at Állami Privatizációs és Vagyongkezelő Rt.
Official room, 1133 Budapest Fozsonyi út 56., Eighth Floor, Room 807

7. At least 90% of the purchase price must be paid in cash. The remaining part of the purchase price can be paid either in cash or in the following manner.

Bidders are entitled to pay for up to 10% of the purchase price in compensation notes. Foreign bidders are entitled to use only compensation notes that they have acquired in their own right. The Caller will receive compensation notes at 174.2%.

Foreign bidders are only entitled to make bids in foreign currencies that the National Bank of Hungary accepts as convertible. The Caller will consider foreign currency at the foreign currency middle rate that is officially announced by the MNB (National Bank of Hungary) as being effective at the time the bids are submitted.

The detailed invitation to bid contains the other conditions pertaining to the sale.

8. A commitment to the bid for 120 (one hundred and twenty) days from the time the bids are submitted is a condition for bidding.

9. In order to prove the intent to purchase, bidders must, before the bid submission deadline, remit or transfer HUF 50,000,000 (that is, fifty million forint) to the MKB account opened by APV Rt. for the purpose of receiving earnest money. This account is specified in the detailed invitation to bid. The Caller will handle this money in accordance with the regulations governing earnest money.

10. The Caller will make the final decision once the bids have been evaluated. In compliance with the provisions of the Privatization Act, the Caller retains the right to declare the tender unsuccessful in extraordinary cases.

11. The detailed information package prepared by the Company, which contains economic information that is important in terms of the bidding, and the detailed invitation to bid constitute inalienable parts of the present invitation to bid. Purchase of the detailed bidding material, which includes the detailed invitation to bid, for HUF 100,000 plus VAT is a prerequisite for making a bid. A confidentiality statement must be signed in order to purchase the detailed bidding material. Bidders (in consortiums, one of the members) must purchase the bidding material directly from the Caller either in person or by proxy. The Caller will issue a voucher as proof of purchase.

Proxies are obliged to prove the legitimacy and extent of their authority with authorized documents or private documents with full probative force. These documents will be inspected by the Customer Service in order to establish their authenticity.

12. Information about the tender and the Company's financial characteristics and figures can be obtained from the persons specified below at the invitation to bid.

From Hungexpo Rt.
Dr. Zsuzsa Pásztor
1101 Budapest, Albertfalvi út 10.
Phone: (06) 1-263-6578

From APV Rt.
Mrs. Györgyi Horváth
1133 Budapest, Fozsonyi út 56.
Phone: (06) 1-263-6578

COMPAGNIE FINANCIÈRE DE PARIBAS

Incorporated with limited liability as a
société anonyme à directeur et conseil de surveillance
under the laws of France
Share capital: FRF 8,359,556,150
Registered office: 5, rue d'Assise, 75002 Paris
Registered in Paris: B542 055 157

Notice of 2nd meeting to holders of
FRF 4,000,000,000 6 per cent. Notes due 2001 (the "Notes")

As the required quorum for the meeting held on 27th April 1998 was not obtained, notice is hereby given that another General Meeting of the shareholders of the above mentioned Compagnie Financière de Paribas in the office of Messieurs Paribas, 5, rue d'Assise, 75002 Paris on 7th May, 1998 at 10.30 am (Paris time) for the purpose of considering the following agenda:

- Directors Report
- Subject to the decision of the general meeting of Compagnie Financière de Paribas' shareholders, approved of the merger of Compagnie Financière de Paribas and Banque Paribas, with Compagnie Financière de Paribas being absorbed, and Banque Paribas becoming an indirect subsidiary of Compagnie Financière de Paribas.
- Filing of the documents relating to the General Meeting.

All shareholders are entitled to participate in, or be represented at, the General Meeting. However, in order to be able to attend the Meeting, a shareholder must deposit his Notes with the Fiscal Agent or with a Paying Agent at its specified office at or before, or such Notes may be held, in the possession of the Fiscal Agent or such Paying Agent, in its order by Cédex Bank or Courriel, for the purpose of obtaining a voting certificate, appointing proxies or giving voting instructions in respect of the General Meeting held 48 hours before the date fixed for the Meeting, but not thereafter.

Fiscal Agent and Principal Paying Agent
Messieurs Paribas Luxembourg, S.A. boulevard Royal, L-1095 Luxembourg

Paying Agents
Messieurs Paribas, 5, rue d'Assise, 75002 Paris

Messieurs Trust Company of New York, London Office
66 Victoria Embankment, London EC4Y 6DP

Messieurs Trust Company of New York, Brussels office
35 Avenue des Arts, B-1040 Brussels

Schwabacher Bank AG
Friedrichstrasse 6, D-10117 Berlin

To our Shareholders

Annual Press Conference

on 29th April, 1998 in Frankfurt

At 10:30 a.m. l.t.
the Annual Report 1997 - german version - will be available on the web:

http://www.lufthansa.com

Lufthansa

Notice of the Annual General Meeting of Shareholders of EUROPEAN CITY ESTATES N.V.

To be held on Monday 18 May 1998 at 3 o'clock p.m. at the Hotel de L'Europe, Museumplein 2-3, Amsterdam. The Netherlands. Holders of shares as well as shareholders having the right to vote who wish to attend the meeting, are required to deposit their proof of ownership at any branch of the ING Bank N.V. in the Netherlands or at the office of the Company, Johannes Vermeerlaan 5, 1071 JY Amsterdam. The Netherlands, not later than 11 May 1998.

Shareholders who wish to be represented by proxy are required to deposit a written power of attorney at the office of the Company or with the banks mentioned above, not later than 15 May 1998. Proxy forms can be obtained from the Company.

The agenda for the meeting and copies of the 1997 annual account and the 1997 annual report can be obtained free of charge at all times by shareholders and others entitled to attend the meeting at the office of the Company or at the banks mentioned above.

Amsterdam, 28 April 1998

The Board of Directors

oolworth to
New York
scraper

Sale proceeds
push PepsiCo
earnings ahead

US companies
slow sale of
subsidiaries

COMPANIES & FINANCE: THE AMERICAS

RETAILING DISPOSAL FOLLOWS GROUP'S DECISION TO CHANGE NAME TO VENATOR

Woolworth to sell New York skyscraper

By Richard Tomkins
in New York

Woolworth, the US retailer, yesterday announced that it was severing its last link with its 118-year history by selling the famous New York skyscraper that bears its name.

The move follows its announcement this month that it was changing its name to Venator on June 12, reflecting its transformation from a chain of five-and-dime stores to a specialist retailer of sneakers.

The Woolworth Building, at 233 Broadway in downtown Manhattan's financial district, is widely regarded as an architectural masterpiece. At 792ft, it was the world's tallest building until the Chrysler building was completed in 1930.

Frank Winfield Woolworth, who founded the Woolworth company in 1879, commissioned the building in 1910 to be the headquarters of his growing world-wide retailing empire. It was completed three years later at a cost of \$13m.

The building was quickly dubbed a "cathedral to commerce" because of its Gothic style. Designed by architect Cass Gilbert, it features arches, spires, flying buttresses and gargoyles. Its street-level lobby is a grand arcade with vaulted mosaic ceilings and sculpted relief.

Woolworth closed its last

general merchandise store in the US last year and now sells mainly athletic wear through its Foot Locker, Champs Sports and other chains. It now occupies only half the 60-storey Woolworth Building with 600 employees.

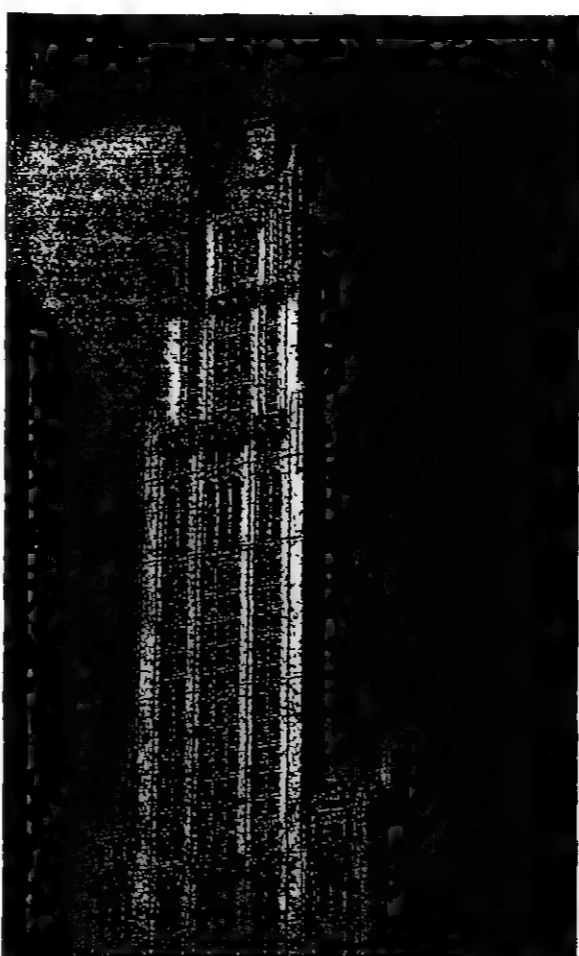
The company said it had retained J.P. Morgan Securities and George Corio as its financial and real estate advisers over the sale. No price has been set.

Although the building is widely admired for its design, its price is unlikely to be spectacular. Old office buildings are unsuited to modern needs, and downtown Manhattan is out of favour as an office location because tenants want to be in the mid-town area, where transport links are better.

The highest price recently paid for a downtown Manhattan office building was \$180 a sq ft for 140 Broadway. If that price were paid for the Woolworth Building's 900,000 sq ft, the building would fetch \$162m.

Woolworth would not say whether it expected to keep its headquarters in New York City if the building were sold. If it did not, it would join a long list of companies to have quit the city for cheaper locations in New Jersey, Connecticut or further afield.

The proposed sale is the latest in a string of transactions involving high-profile office buildings.



Manhattan skyscraper the Woolworth Building was dubbed a 'cathedral to commerce' because of its Gothic style

Retail tycoon joins Mexico telecoms fray

Ricardo Salinas Pliego aims to operate fixed wireless telephony, writes Leslie Crawford

After leading a successful assault on Televisa's media monopoly and developing one of the largest retail networks in Mexico, Ricardo Salinas Pliego, owner of TV Azteca and Elektra stores, is preparing to do battle with the country's telecommunications giants.

Mr Salinas and 11 other bidders are taking part in the first government auction to be conducted in cyberspace. For the past five months, participants have been placing daily bids on the Transport and Communications Ministry's website for concessions to operate fixed wireless telephony.

So far, Mr Salinas has bid \$300m for nine concessions that would allow him to establish a nationwide local telephony network using PCS (Personal Communications Services), technology which allows voice and data transmission over the airwaves.

PCS is cheaper, clearer and faster than digital technology, and because it dispenses with phone lines altogether, it promises to be the first serious rival to the *de facto* local telephony

monopoly held by Telmex. So far, the 12 participants in the internet auction have bid a total of nearly \$1bn for the new spectrum licenses. While they continue to raise the stakes, the cost of the concessions will keep rising.

Asteca last August, he plans to invest \$1bn over the next five years in fixed wireless telephony. He says he will market the telephones, which will cost \$50, through his 600 Elektra stores. The radio signal towers will be built on top of his stores,

there is a huge unsatisfied demand out there."

To finance the venture, Bear Stearns, the US investment bank, is placing 20 per cent of Mr Salinas' new telecommunications company, SPC, among private investors, which is expected to raise \$150m-\$180m. A high-yield bond will raise another \$180m.

"This should be sufficient to pay for the concession, and we have contracted supplier finance for the remaining investments as they are incurred," Mr Salinas says.

"We do not see ourselves as a rival to Telmex," says Mr Salinas. "But Telmex has installed only 9m lines in a nation of 92m people, so there is a huge unsatisfied demand out there."

"This auctioning system is both very, very good and very, very bad," says Mr Salinas. "It is good because it is the most transparent way to allocate concessions and it maximises government revenues. But it is bad for us because it has turned out to be so expensive."

The entry costs, however, have not dampened Mr Salinas' enthusiasm. Flush with cash after the successful flotation of TV

and the billing will also be handled by Elektra, which sells white goods on credit to low-income families.

"Our sales network and expertise in debt collection will give us a head start in fixed wireless telephony," Mr Salinas says. His target is to sign up 1.5m clients within five years.

"We do not see ourselves as a rival to Telmex," he says. "But Telmex has installed only 9m lines in a nation of 92m people, so

after this year, Mr Salinas plans to create a new holding company to amalgamate his family's controlling interests in Elektra, TV Azteca and Biper, a radio-paging service.

He will also throw in his new telecommunications venture as a bonus. The holding company will be called Salsa ("for hot and exciting," the 42-year-old billionaire explains).

Mr Salinas plans to float Salsa on the New York and Mexico City stock exchanges before the end of 1998.

Sale proceeds push PepsiCo earnings ahead

By Richard Tomkins
in New York

PepsiCo, the US soft drink and snacks group, barely increased operating profits in the first quarter, but a \$4.5bn cash injection from the spin-off of its restaurants business helped push earnings ahead.

After a sharp fall in the interest charge, net profits from continuing operations rose by 19 per cent from \$318m to \$377m, and diluted earnings per share rose from 20 cents to 24 cents, slightly ahead of the expected 23 cents.

As in previous quarters, the company's underlying performance was dragged down by losses from its soft drinks operations outside the US, which have been struggling to compete with Coca-Cola's fast-expanding sales.

Operating losses from international beverages were reduced from \$27m to \$18m, while operating profits from US beverages were unchanged at \$258m, leaving the division's overall operating profits 4 per cent ahead at \$240m.

Worldwide soft drinks vol-

ume increased by 4 per cent, less than half the 9 per cent increase reported by Coca-Cola.

In snacks, international profits, hit by the strong dollar and a potato crop short-fall in the UK, declined by 23 per cent to \$76m, while US profits advanced by 9 per cent to \$308m.

Overall, the division's operating profits rose 1 per cent to \$384m.

Net profits were given a big boost by a fall in the interest charge that followed PepsiCo's decision to ask Tricor Global Restaurants to pay it a special dividend of \$4.5bn when Tricor was spun off last October. Tricor comprises the Pizza Hut, Taco Bell and KFC fast food businesses.

Roger Enrico, chairman and chief executive, said PepsiCo was on track for a "solid" 1998. The company was still in the process of transition, he said, but he was pleased by its progress.

The international beverage business was continuing to restructure its bottling network and had begun to reap the benefits of last year's restructuring efforts with accelerating volume growth.

US companies 'slow sale of subsidiaries'

By William Lundy in New York

The sale of subsidiaries by US companies is slowing down, reflecting "a maturity in corporate clarity theme" on Wall Street which in recent years has pushed US corporations to divest non-core operations, according to a report by J.P. Morgan, the investment bank.

In the first quarter of this year the volume of the sale of subsidiaries was down 30 per cent on last year's first quarter, said Rick Escherich, head of J.P. Morgan's analysis policy group, which prepared the report.

He said that while the number of subsidiaries sold remained steady, the average size of the sales had fallen.

The lower volume of subsidiary sales has pushed their percentage of the US market to an all-time low of 20 per cent.

This compares with more than 30 per cent during the late 1980s and over 40 per

cent during the early 1990s, when subsidiary sales were "the life blood of the M&A market," the report said. This decline is said to reflect a maturity in the corporate clarity theme which has seen Wall Street analysts and investors encourage US corporations to focus on areas of expertise and divest non-core operations to maximise their value.

J.P. Morgan said that over the past five years, many of the obvious break-ups of conglomerates had taken place. In recent months this has resulted in fewer large divestitures but more smaller sales as firms "continue to fine-tune their businesses".

"While some companies in diverse lines of business remain, there is less pressure on these companies to split, since most have shown the rare ability to successfully manage this diversity and produce superior returns for shareholders," said Mr Escherich.



GLOBAL REACH

IN-DEPTH CAPABILITIES
M&A

LOCAL INSIGHT

INDUSTRY EXPERTISE

Federal-Mogul

To meet industry consolidation trends, autoparts company

Federal-Mogul was seeking to rapidly expand, develop its product mix and increase its distribution network. We advised on their recommended cash offer for UK rival T&N, a US\$3 billion transaction that resulted in expanded global reach, scale and enhanced systems capabilities.



Gallaher Group

Gallaher was demerged from its parent company,

American Brands, at a total value of £2.9 billion. We acted as financial adviser, sponsor and joint stockbroker to Gallaher on its demerger and its listing on the London and New York stock exchanges.



Munich Re

To meet Munich Re's goal of improving the competitive

position of its direct insurance activities, we advised the reinsurer in a DM15 billion merger of equals, creating ERGO, the second-largest German direct insurer. We enabled Munich Re, the largest stakeholder, to improve the visibility of a large part of its assets. Shares of both ERGO and Munich Re have since outperformed the market.



Suez

Suez Lyonnaise was formed through the merger of Suez

and Lyonnaise des Eaux, creating one of the world's leading private infrastructure services companies focused on energy, water, communications and waste services. We acted as financial adviser to Suez, utilising our extensive industry experience and knowledge of the French M&A environment.



VNU

The competitive bids for ITT of the US created an

opportunity for VNU to acquire ITT World Directories, a leading publisher of telephone directories. We advised VNU on its successful negotiations with Starwood Capital to acquire the business for \$2.1 billion.



Worms & Cie

Artemis' unsolicited bid for Worms was topped by the

Somea/VAGF counter offer, which better reflected Worms' value creation potential and facilitated the development of its prized Athena insurance business. We acted as sole financial adviser to Worms in the defence, leveraging our industry expertise and our knowledge of the French M&A environment.



MORGAN STANLEY DEAN WITTER

Amsterdam Montreal Bangkok Moscow Beijing Mumbai Frankfurt New York Osaka Geneva Paris Hong Kong São Paulo Johannesburg Seoul Shanghai London Singapore Luxembourg Sydney Taipei Tokyo Melbourne Toronto Milan Zurich

COMPANIES & FINANCE: EUROPE

BANKING IMMINENT DEPARTURE OF PHILIPPE PONTET AFTER TAKEOVER ANNOUNCED DESPITE EARLIER INDICATIONS HE WOULD STAY

Crédit Mutuel ousts chairman of CIC

By Andrew Jack in Paris

Crédit Mutuel, the French mutual bank, flexed its muscles yesterday by announcing the imminent departure of the head of CIC, the regional banking network it formally acquired on Monday.

Philippe Pontet, the chairman of CIC since late 1994, who helped to steer the bank successfully to privatisation, is set to leave his post by the

end of July, once new statutes have been put in place.

The abrupt departure - which shocked many close to the bank - was announced on the day after Crédit Mutuel paid FF13.3bn (\$2.2bn) to acquire two-thirds control, as agreed last week with the French government.

Shortly before a board meeting yesterday, Crédit Mutuel informed Mr Pontet and GAN, the state-owned

insurer which retains a minority stake in CIC, of the decision to appoint its own chairman and chief executive at CIC. It had previously indicated Mr Pontet would stay in charge.

CIC said in a statement that Etienne Pimlin, chairman of Crédit Mutuel, would become head of the supervisory board of the Union Européenne de CIC, the holding company, and Michel Lucas, its managing direc-

tor, would become head of CIC's executive board.

Crédit Mutuel stressed that the two-tier board structure it planned to create at CIC was identical to management policy at all its subsidiaries. It said GAN would retain seats on the new supervisory board.

The move appeared to some as a first step in centralising the control of Crédit Mutuel over CIC, in spite of its assurances

throughout the privatisation process that it would respect the separate identity of the bank, once acquired.

However, Crédit Mutuel was at pains yesterday evening to stress that it would respect a separate identity for CIC. It said Mr Pimlin's appointment reflected the need to have "a single strategic control" and to ensure rapid organisational reform.

GAN, CIC and the ministry of finance all moved rapidly yesterday to play down any controversy, and to praise Mr Pontet for his work. He was appointed in late 1996 after the government forced Bernard Yoncourt, his predecessor, to resign when he criticised bidders for CIC in a previous privatisation attempt.

Two other managing directors of CIC - Philippe Dumas and Jean-Jacques Tamburini - were confirmed in their existing jobs.

Deutsche Telekom rises 9%

By Frederick Sidemann in Bonn

Deutsche Telekom, the partly privatised German telecommunications group, yesterday posted first-quarter results ahead of market expectations. In spite of intensifying competition in its home market,

Outside Germany, the performance was less impressive as the company confirmed it had increased 1997 provisions for the effects of the Asian financial crisis to DM900m (\$503m) from DM750m. It also announced an additional, unspecified, charge for the first quarter of this year.

The company, which has been grappling with the full liberalisation of Europe's biggest telecoms market since January 1, said sales increased 8.1 per cent to DM17.3bn and pre-tax profits

by 9 per cent to DM2.4bn.

The news was welcomed by the Frankfurt stock market where Deutsche Telekom shares rose DM1.05 to DM48.

Victoria Grainger, analyst at Merrill Lynch in London, said: "The key thing is to cover the dividend this year and the first-quarter results suggest they can do this."

Deutsche Telekom said it still proposed a 1997 dividend of DM1.20 a share, double the 1996 payout.

However, Ron Sommer, chairman, warned against too much analysis of the first-quarter figures. He said ongoing tussles with the German regulators and the full-year result could significantly affect the full-year result.

Detlef Buchal, director of distribution, said Deutsche Telekom believed it had lost about 2 per cent of sales to new competitors.

The battle with regulators over interconnection agreements - the amount paid by competitors to switch their new customers into the Deutsche Telekom network - and fees for Deutsche Telekom's loss-making cable television network continue to hold back the company.

The company has taken the regulatory authority to court in a move to overturn a ruling that it charge lower prices to competitors using its cable network. A ruling on the fees it can charge for its cable network is expected in the next few days.

Evan Miller, European telecoms analyst at CSFB in London, said that while the market had been surprised by the tough stance adopted by the regulators, there was hope that the negative impact on the company would "at some point diminish in terms of prominence".

Start-up costs at Global One, the joint venture with France Telecom and Sprint of the US, cost the German group DM390m.

Other loss-makers were the cable network, which is DM1bn in the red, and the equipment provision business, where losses ran to DM300m.

Sales in 1997 rose 7 per cent to DM67.6bn. Operating profits climbed 8.3 per cent to DM7.2bn, while post-tax profits were DM3.3bn, up 90 per cent.

The company said it had reduced its debt burden, another market concern, by 12 per cent to DM87.9bn.

Joachim Kröske, chief financial officer, said the company planned a bond issue of up to DM2bn in what will be the biggest fundraising of its type without the backing of the government.



Ron Sommer: warns competition could affect full-year result. Reuters

Commerzbank may take stake in Korean bank

By Andrew Fisher in Frankfurt and John Burton in Seoul

Commerzbank of Germany has held talks about taking a minority stake in Korea Exchange Bank, the country's biggest in terms of assets, for about DM600m (\$270m).

The deal would make Commerzbank the first foreign bank to take a significant stake in a Korean commercial bank.

The German bank, which held a board meeting yesterday, would not comment on the talks.

Jürgen Lemmer, a director, visited Korea last week. Commerzbank owns a 34 per cent stake in Korea International Merchant Bank, in

which its partner is KEB with 41 per cent.

Martin Kohlhausen, Commerzbank chairman, said: "Korea Exchange Bank is a bank of high reputation." However, he noted that while South Korea was worth keeping a close eye on, "Korea is - like a number of Asian countries - not in very good shape."

"You have to do your homework properly," he said, although he added that heavy lending exposure to several failed conglomerates was "premature".

The German and Korean banks were "long-standing friends", he said.

In Seoul, analysts said a possible DM600m capital injection by Commerzbank into KEB, in which the gov-

ernment owns nearly half the shares, would give it a stake of up to 30 per cent.

KEB needs new capital to meet the Bank of International Settlements' capital equity ratio of 8 per cent by June or face merger or closure under the terms of the International Monetary Fund's \$58.5bn rescue package for the country.

KEB, once one of Korea's healthier banks, reported a loss last year because of heavy lending exposure to several failed conglomerates. Y. C. Mok, banking analyst for ING Barings in Seoul, estimated that KEB's non-performing loans of longer than three months amounted to nearly 30 per cent of total lending.

Banco Santander breaks Spanish record

By Tim Bates in Madrid

Banco Santander yesterday announced a record first-quarter net profit for a Spanish bank, with earnings up 31 per cent year-on-year, driven by a strong performance in Latin America.

Attributable net income rose to Ptas2.4bn (\$213m) following completion of Santander's outright acquisition of its subsidiary Banco Español de Crédito (Banco). The share exchange offer lifted the group's shareholder base from 230,000 to 450,000 and nearly doubled its December market capitalisation of Ptas2,400bn to Ptas4,000bn.

The first-quarter figure reflected the incorporation over the past 13 months of new banking assets in Brazil, Colombia and Mexico that have consolidated Santander's position as the biggest banking franchise in Latin America.

The group said earnings later this year would be boosted by the impact of further acquisitions in Brazil as well as by improved efficiency ratios and lower costs resulting from the Banesto takeover.

The group has pledged to reduce costs by Ptas125bn over the next three years and to achieve an efficiency ratio of 55 per cent.

The efficiency ratio, which measures transformation costs against the operating margin, stood at 61.9 per cent, down quarter-on-quarter from 63.1 per cent and from 66.4 per cent year-on-year.

The group plans to multiply cost savings annually to 2001, through branch closures where Santander and Banesto offices overlap, and through systems and technology integration and the reduction of common logistic overheads.

Annual savings will be Ptas4bn this year, growing to Ptas5bn in 2001. The surge in profits underlined the increasing contribution of recurring income from the group's retail banking business.

A 43 per cent rise in Santander's net interest income to Ptas167.5bn, and a 86 per cent increase in profits from fee commissions to Ptas78.9bn, comfortably offset higher personnel and administrative expenses generated by acquisitions in Latin America.

Operating income rose by 40.4 per cent to Ptas84.7bn. A key feature of the group's retail banking earnings was that profits from the Latin American network accounted for Ptas37.5bn, or 44.7 per cent, of the operating income total.

Norway's banks squeezed by stiff competition

By Greg McIvor in Stockholm

Three of Norway's largest banks yesterday reported lower first-quarter pre-tax profits as stiff competition eroded margins.

Den norske Bank, the country's largest financial institution, saw pre-tax profits decline from Nkr828m to Nkr822m (\$88.5m), below market expectations.

Net interest income fell marginally, from Nkr1.05bn to Nkr1.04bn. Finn Hvistendahl, DnB chief executive, said margins remained under pressure and would be "closely monitored" in coming months.

DnB's operating costs rose from Nkr1.13bn to Nkr1.17bn, including a Nkr45m restructuring charge.

Pre-tax profits at Christiania Bank, Norway's second largest, slipped from Nkr698m to Nkr698m.

Net interest income rose from Nkr894m to Nkr941m, but Christiania said the margin between loans and deposits had weakened.

Profits were hit by a sharp fall in income from foreign

exchange and derivatives trading and by higher operating costs, up from Nkr608m to Nkr668m.

Christiania said it would increase interest rates in parts of the corporate and retail lending markets during the second quarter to ease margin pressure.

Lending growth had slowed as expected from last year, Christiania said. Net loans increased by 3.1 per cent from Nkr151bn to Nkr156bn.

Fokus Bank, based in Trondheim, posted a drop in pre-tax profits from Nkr182.5bn to Nkr168.9bn.

Net interest income advanced from Nkr236.7bn to Nkr255.6bn, but the increase was offset by lower income from securities, commissions and trading activities and by a jump in operating costs from Nkr207.3bn to Nkr225.9m.

IVO-Neste, the holding company set up as the first stage in the merger of the Finnish oil, energy and chemicals groups, said yesterday each Neste share would be worth Fm176 in the final equity exchange.

NEWS DIGEST

BANKING

SE-Banken aided by rise in net commission income

Skandinaviska Enskilda Banken, the Swedish bank, yesterday reported 4 per cent growth in preliminary first-quarter operating profits. Pro forma pre-tax profits, including the SKr16.8bn (\$2.18bn) acquisition of Sweden's Trygg-Hansa insurance group last October, advanced from SKr2.3bn to SKr2.4bn.

The increase, driven by a strong rise in net commission income and profits from financial transactions, masked a 13 per cent deterioration in net interest income from SKr1.96bn to SKr1.7bn, reflecting a narrowing of the margin between lending and deposits.

Lars Thunell, SE-Banken chief executive, said the integration of Trygg into the bank was on schedule. He said SE-Banken, which in December was forced to issue a profits warning because of spiralling costs from the Trygg purchase, had succeeded in reducing the rate of cost growth.

Expenses rose from SKr3.15bn to SKr3.3bn, outpacing a more modest increase in operating income, which increased from SKr5.6bn to SKr5.86bn. Credit losses more than doubled, from SKr55m to SKr119m, but from a low base. Return on equity was 23.9 per cent, against 12.7 per cent. Reported earnings per share rose from SKr2.38 excluding Trygg to SKr2.92. Total profits, including changes in surplus values in life insurance operations and interest-bearing investment assets, climbed from SKr2.3bn to SKr2.7bn on a pro forma basis. SE-Banken's most-traded A shares firmed SKr3 to SKr130. Greg McIvor, Stockholm

ENERGY

Endesa helped by cost-cutting

Endesa, the partly privatised Spanish energy group, said last night net profits for the first quarter rose 3.2 per cent to Ptas40.47bn (\$3.76bn). The result came on sales down from Ptas300.70bn to Ptas290.42bn and was attributed to cost-cutting and the withdrawal from non-strategic businesses.

The profit growth was slightly better than expected - analysts had forecast a rise closer to 2.5 per cent. "This result shows Endesa's capacity to face up to the liberalisation of the [Spanish electricity] market, which began on January 1," it said.

Although the results were released after the close of the Madrid Bole, the shares shot up about 5 per cent in the last minutes of trading to Ptas3,740. AP-DJ, Madrid

PHARMACEUTICALS

Gedeon Richter advances 26%

Gedeon Richter, the Hungarian pharmaceutical company, yesterday reported a 26 per cent rise in first-quarter net profits, to Ft6.3bn (\$30m). Sales, at Ft16.6bn, were 30 per cent ahead, supported by strong exports which rose 43 per cent to Ft3.6bn. The CIS was the leading export destination, with sales to the region up 57 per cent to Ft2.2bn. However, domestic sales rose only 6.3 per cent to Ft288m, a 12 per cent decline in dollar terms.

In spite of the increased profit figures, Richter shares lost 5 per cent to close at Ft23,200 on a bearish Budapest bourse yesterday, when the BUX index closed down 2.5 per cent. Kester Eddy, Budapest

EGYPT

Saudi prince buys IEC stake

Prince al-Waleed bin Talal, the Saudi Arabian financier, is to buy a large stake in Egypt's leading private sector electronics manufacturer. The investment is a further move towards extending his already substantial Egyptian portfolio into industrial enterprises. Prince al-Waleed, whose main holdings include 8.3 per cent of Citicorp and 25 per cent of the Four Seasons hotel group, will buy a large stake in the Cairo-based International Electronics Company. The company, whose shares are being offered to finance a capital increase to allow expansion and debt payment, made a \$14m profit in 1997. Mark Huband, Cairo

INVESTMENT BANKING

Simonian joins Morgan Stanley

Rair Simonian, a well-known Russian oil executive, has been appointed head of the Morgan Stanley's Russian operations. The investment bank announced yesterday. Mr Simonian was previously the vice-president of Rosneft, the biggest Russian oil company yet to be privatised and subject this year of a fierce battle between the country's most powerful tycoons. Chrystie Freeland, Moscow

Kværner

Kværner ASA

NOTICE OF GENERAL MEETING

The Annual General Meeting of Kværner ASA will be held at 1400 on Friday May 15, 1998 in the offices of Kværner ASA, Prof. Korts vei 15, Lysaker, Bærum. Voting slips will be handed out at the place of the Meeting between 1300 and 1400 on the day of the Meeting.

The Agenda will be as follows:

1. Report by the Group President
2. Adoption of the profit and loss account for 1997 and the balance sheet at 31st December 1997 for Kværner ASA and the Group.
3. Allocation of the result after taxes in accordance with the adopted profit and loss account and distribution of dividend

The Board proposes a dividend of NOK 7.00 per share for 1997, to be paid on June 3, 1998 to the shareholders of the Company at the date of the Annual General Meeting according to the Norwegian Registry of Securities.

4. Proposal to authorise the Board to increase the share capital by up to NOK 37,500,000

It is proposed that the Board be authorised to increase the share capital by up to NOK 37,500,000 comprising up to 3,000,000 shares, each with a par value of NOK 12.50. This authority is to be exercised in connection with any full or partial acquisition of, or merger with, other businesses and thus comprises a capital increase for a consideration other than money. The authority of the Board applies to both classes of shares in issue and includes the allotment of the new shares within these classes of shares and determination of the subscription price. The shareholders waive their right of pre-emption according to section 4-2 of the Norwegian Joint Stock Companies Act. The authority is valid until the Annual General Meeting in 1999 and includes the right to amend article 3 of the Articles of Association.

5. Approval of the remuneration of the Auditor

The Annual Report containing the report of the Board of Directors and the report of the Auditor and the Articles of Association are enclosed hereto. The Annual Report and this Notice are also available at the offices of Kværner ASA, Prof. Korts vei 15, Lysaker, Bærum. Shareholders may call +47 67 51 30 00 to obtain copies.

Shareholders wishing to attend the Annual General Meeting, either in person or by proxy, must give notice of this by forwarding the enclosed Notice of Attendance to Kværner ASA, c/o Den norske Bank ASA Verdpapirservice, P.O. Box 1171, Sentrum, N-0107 Oslo. The Notice must be received no later than Monday May 11, 1998. Shareholders may, if they wish, appoint either Christian Bjelland, Chairman of the Board of Directors or Erik Tønseth, Group President, to act on their behalf at the Meeting.

April 21, 1998
The Board of Directors
of Kværner ASA

KVARNER

New Member

From 22th April, Erik Penser Fondkommission AB will act as a member of the

Helsinki Stock Exchange



Erik Penser

FONDKOMMISSION

Telephone: +46 8 463 80 00. Fax: +46 8 611 27 05.
P.O. Box 7405, SE-103 91 Stockholm.

Republic of Poland

U.S.\$2,970,214,000 Due 2024

Collectible Discount Bonds

In connection with the 1994 Financing Program of the Republic of Poland Notice is hereby given that the Rate of Interest for the Interest Period April 29, 1998 to October 29, 1998 has been fixed at 6.6875% and that the interest payable on the relevant Interest Payment Date October 29, 1998 for the first interest period will be US\$33.99 in respect of US\$1,000 nominal of the Bonds.

April 29, 1998, London

By Citibank N.A. (Corporate Agency & Trust), Agent Bank CITIBANK

Republic of Poland

U.S.\$137,556,000 Due 2009

New Money Bonds

In connection with the 1994 Financing Program of the Republic of Poland Notice is hereby given that the Rate of Interest for the Interest Period April 29, 1998 to October 29, 1998 has been fixed at 6.6875% and that the interest payable on the relevant Interest Payment Date October 29, 1998 for the first interest period will be US\$33.99 in respect of US\$1,000 nominal of the Bonds.

April 29, 1998, London

By Citibank N.A. (Corporate Agency & Trust), Agent Bank CITIBANK

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The War

New Capital for a Changing Europe.

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or to U.S. persons absent registration or an applicable exemption from the registration requirements. These securities having been previously sold, this announcement appears as a matter of record only.

April 1998

Euro 235,000,000



**CELLULAR
COMMUNICATIONS
INTERNATIONAL, Inc.**

**Cellular Communications
International, Inc.**

9.50% Senior Discount Notes Due 2005

The undersigned privately placed these securities with qualified institutional buyers pursuant to Rule 144A and outside the United States in reliance on Regulation S under the Securities Act of 1933.

Donaldson, Lufkin & Jenrette **Wasserstein Perella Securities, Inc.**
Securities Corporation

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or to U.S. persons absent registration or an applicable exemption from the registration requirements. These securities having been previously sold, this announcement appears as a matter of record only.

April 1998

£425,000,000

\$1,300,000,000



NTL Incorporated

£125,000,000

9½% Senior Notes Due 2008

£300,000,000

10¼% Senior Deferred Coupon Notes Due 2008

\$1,300,000,000

9¾% Senior Deferred Coupon Notes Due 2008

The undersigned privately placed these securities with qualified institutional buyers pursuant to Rule 144A and outside the United States in reliance on Regulation S under the Securities Act of 1933.

Donaldson, Lufkin & Jenrette
Securities Corporation

Morgan Stanley Dean Witter

BT Alex. Brown

Chase Securities Inc.

Salomon Smith Barney

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or to U.S. persons absent registration or an applicable exemption from the registration requirements. These securities having been previously sold, this announcement appears as a matter of record only.

April 1998

U.S. \$450,000,000

DM 300,000,000



Fresenius Medical Care Capital Trust II

7¼% USD Trust Preferred Securities

(Liquidation Amount \$1,000 per USD Trust Preferred Security)

Fresenius Medical Care Capital Trust III

7¼% DM Trust Preferred Securities

(Liquidation Amount DM 1,000 per DM Trust Preferred Security)

Each Guaranteed to the Extent Set Forth in the Offering Memorandum by

Fresenius Medical Care AG

The undersigned privately placed these securities with qualified institutional buyers pursuant to Rule 144A and outside the United States in reliance on Regulation S under the Securities Act of 1933.

Joint-Lead Manager
Bookrunner for the USD tranche

Donaldson, Lufkin & Jenrette
Securities Corporation

Bear, Stearns & Co. Inc.

Chase Securities Inc.

Deutsche Morgan Grenfell

Dresdner Kleinwort Benson
North America LLC

NationsBanc Montgomery Securities LLC

Scotia Capital Markets (USA) Inc.

Joint-Lead Manager
Bookrunner for the DM tranche

Credit Suisse First Boston

The World Leader in High-Yield Bonds.

DLJ

www.dlj.com

COMPANIES & FINANCE: ASIA-PACIFIC

PHILIPPINES INCREASED FINANCING COSTS HIT EMBATTLED FOOD AND DRINK GROUP

San Miguel plunges 91% to 103m pesos

By Justin Marozzi in Manila

Escalating financing charges and the continued fall-out from the Asian crisis rocked San Miguel in the first quarter, with the Philippine food and beverage group's profits plunging 91 per cent to 103m pesos (\$2.6m).

The disappointing results came as Eduardo Cojuangco, former chairman and close business associate of the late president Ferdinand Marcos, sought yesterday to regain control of United Coconut Planters Bank, which administers a 27 per cent stake in San Miguel.

Analysts said the move was intended to regain Mr Cojuangco's control of the Philippines' flagship company.

San Miguel, which recently adopted the corporate motto "Managing in Tough Times", has been severely hit by the regional crisis.

Financing charges doubled from 746m pesos to 1.42bn pesos after increased borrowings and higher interest rates, which have risen to as much as 30 per cent. Cost of sales and operating expenses increased 21 per cent to 17.5bn pesos.

"I think there is a good

chance, based on these figures, that San Miguel will show an operating or a net loss this year, which would be unprecedented in recent years," said John Mangun, director for portfolio management at IB Girones Securities, a local brokerage.

Consolidated net sales rose 1 per cent to 18.7bn pesos, which the company said indicated that consumption of consumer goods, particularly food and beverages, remained buoyant.

Revenues in the core domestic beer business improved 16 per cent to 6.64bn pesos, with operating

income surging 85 per cent to 1.04bn pesos.

The group's B shares closed down 0.5 peso at 86 pesos yesterday.

International beer sales fell 14 per cent, reflecting slower demand in Indonesia, Hong Kong and Vietnam, and restructuring in China. Operating losses rose 9 per cent to 391m pesos.

The attempt to regain voting rights of a 35 per cent stake in UCPB, the bank that administers the bulk of the remaining sequestered shares in San Miguel, is seen as part of Mr Cojuangco's

campaign to return to San Miguel, either to sell part of his stake or to resume control after national elections on May 11.

Both frontrunners to succeed Fidel Ramos as president are expected to be sympathetic to Mr Cojuangco and may appoint government directors to the San Miguel board who would vote with rather than against him.

Estelito Mendoza, the lawyer representing Mr Cojuangco, said he was optimistic the anti-graft court would allow his client to vote UCPB shares.

CTHK unveils mainland buy

By Justin Marozzi in Hong Kong

China Telecom (Hong Kong), the listed arm of China's dominant telecoms operator, yesterday announced it would pay HK\$22.48bn (US\$2.9bn) to acquire one of the mainland's biggest cellular networks from its parent company.

The acquisition of Jiangsu Mobile Communication, in the eastern province of Jiangsu, is one of the biggest asset injections by a mainland company into a Hong Kong-listed subsidiary. It comes only a few days after a standstill agreement on acquisitions made when China Telecom listed six months ago.

"It shows that the company's management is highly focused on executing our strategy of acquiring high-quality cellular assets," said Shi Cui-ming, chairman. Jiangsu is a highly attractive market with relatively high economic development but a low cellular penetration rate.

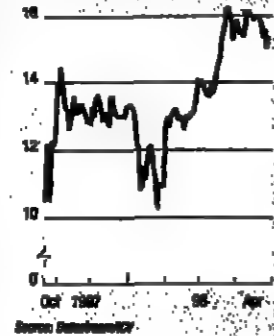
Shares in China Telecom jumped 2 per cent to HK\$15.35 as the deal was disclosed, while analysts welcomed the terms of the transaction.

"It will solidly enhance China Telecom's value and is very attractively priced," said David Gibbons, telecoms analyst at HSBC Securities Asia. He said international cellular companies were valued at about 13 times forecast earnings before interest, tax, depreciation and amortisation, against a ratio of 7.3 times in yesterday's transaction.

The acquisition of the Jiangsu network was also seen as a forerunner to further acquisitions as China's ministry of information industry, the ultimate parent of China Telecom, seeks to raise international funds to finance the development of

China Telecom

Share price since flotation (1997)



the mainland telecoms sector. Mr Shi said China Telecom (Hong Kong) was continuing to examine acquisition opportunities, but declined to be drawn on the timing of future deals.

With yesterday's move, China Telecom now has a dominant position in China's three biggest provincial cellular markets, adding to its existing operations in Guangdong and Zhejiang.

"Our market share in China's cellular market will increase from 25 per cent to 31 per cent," said Mr Shi, adding that the total number of subscribers would climb to 4.8m.

At the end of March, Jiangsu Mobile had 1.04m subscribers, with average monthly net additions of more than 50,000 this year. While net profits are forecast to remain flat in 1998, at about Yn1.25bn (\$151m), the estimate reflects the impact of new taxation on connection fee revenues and a revaluation of fixed assets.

"Underlying profits growth will remain robust," said one analyst. Financial advisers for the deal were Goldman Sachs and China International Capital Corporation - a joint venture between China Construction Bank and Morgan Stanley Dean Witter.

Silver lining seen in clouds over Asia

Shanghai Petrochemical plans to expand, write James Harding and John Ridding

The ambition at Shanghai Petrochemical in recent years has been matched only by the slide in earnings performance and the slump in the share price.

With petrochemical prices in China at the bottom of a cyclical trough and recovery in the sector delayed by the Asian financial crisis, the company's forthcoming results will do little to salvage that reputation.

Lu Yiping, president, is expected to announce a plunge in 1997 profits when he delivers the annual report to Hong Kong investors at the end of this month.

Analysts are gloomy. ING Barings expects net profits to fall to Yn368m (\$44.5m), down from Yn1.0bn in 1996 and Yn2.1bn in 1995. Judging by a share price that has fallen more than 45 per cent over the year to close yesterday at HK\$1.03, investors are equally disillusioned.

But difficult times have not dulled ambitions. Shanghai Petrochemical plans an expansion which will consume more than Yn200m in fresh capital and nearly double capacity in some core businesses.

The investment is intended to catapult the company from the top division of China's petrochemicals industry into the big league of multinational producers. In the process, it will raise gearing, may strain plans for a \$2.5bn ethylene joint venture with British Petroleum and test management's ability to turn a state-owned enterprise into a modern, independent business.

Mr Lu suggests Shanghai Petrochemical has little choice: "In order to compete internationally, we need to map out strategic targets in terms of capital expenditure. The most important thing is to increase the scale of production."

The petrochemicals sector



Lu Yiping: crisis will provide 'great opportunities' to develop production facilities overseas

is one of the least protected in China, and Shanghai Petrochemical cannot ignore the global trend towards consolidation and increased capacity if it wants to hold its own against foreign groups entering its domestic market.

"My objective is to focus on very specific products in which we have strong experience and management expertise... and increase their market share," Mr Lu says.

The spending programme comes in two parts. As part of an internal reorganisation, the company expects to spend Yn10bn by 2001, lifting crude oil processing capacity from 5.3m tonnes to 10m tonnes and ethylene production from 550,000 tonnes to 800,000-900,000 tonnes.

In addition, the group plans a 50-50 venture with BP to build a 650,000-tonne ethylene plant at a cost of \$2.5bn, which means Shanghai Petrochemical will have to raise another Yn10bn to foot its half of the bill.

Mr Lu says there are questions over how to raise the money for the venture. "Capital is a key issue we need to discuss with BP. We have some options, but it is not

the right time to discuss them now."

The in-house spending programme is Mr Lu's first priority. Some of it will be funded through internal cash flow and most of the rest through bank borrowing. The company, whose gearing stands at 38 per cent, aims to keep the debt-to-capital ratio below 50 per cent.

Expansion has also come through mergers and acquisitions. Having bought Shanghai Jinyang Acrylic Fibre Plant in 1995, the company purchased the Zhejiang Acrylic Fibre Plant in the province's neighbouring Shanghai last year.

Mr Lu says the Asian crisis is throwing up opportunities. "There are now great opportunities to develop production facilities overseas. For example, in Korea a lot

of refining capacity has been closed down and there are good chances for companies to buy these businesses."

Meanwhile, Asia's economic turmoil is denting petrochemicals prices. Mr Lu says prices in China are down 15 per cent on the end of last year. "South Korea, in particular, has pushed product into the market, but this will just be a short-term phenomenon as it will not be able to continue to sell into the market at such low prices for long."

Mr Lu sees other silver linings: "The financial crisis will have an effect on the petrochemicals market. But it also presents opportunities for companies to cut production costs and increase the competitiveness of their products by improving overall efficiencies."

UK bank eyes Asia purchases

By Sheila McNulty in Kuala Lumpur

Standard Chartered, the UK-based bank, is interested in acquiring banks in Asia but is concerned about the very high prices.

"There isn't yet any willingness by governments to do something about what are some terrible loan books," said Patrick Gilliam, chairman.

The bank already has a presence in every Asian country except North Korea, though its business is biggest in Hong Kong, Singapore and Malaysia. It now wants to expand elsewhere

in the region, according to David Morgan, chief executive officer in Malaysia.

"If the opportunity to expand in the region by acquisition presents itself, we are very interested," Mr Gilliam said.

This is just one of the ways in which Standard Chartered is benefiting from the Asian crisis.

As concerns about the impact on local institutions grow, depositors converged on foreign banks and Standard Chartered, with its long-established presence in the region, was one of the main beneficiaries.

"There are a number of

NEWS DIGEST

BANK OF PHILIPPINE ISLANDS

First-quarter provisions jump more than sevenfold

Provisioning levels at Bank of the Philippine Islands, a leading local bank, surged more than sevenfold in the first quarter, reflecting the deteriorating business climate brought on by the Asian crisis.

Provisioning jumped from 97m pesos to 731m pesos (\$18.6m). "This is also indicative of BPI's position as the most conservatively managed bank in the country," said a banking analyst at a foreign brokerage. Non-performing loans rose from 2.3 per cent at the end of 1997 to 3 per cent in the first quarter, compared with an industry average of about 8 per cent last year and an estimated 13 per cent for the full year. As a percentage of total loans, provisioning was 3.4 per cent, making BPI the only local bank to have more than 100 per cent cover for bad debt, said one analyst.

Net earnings rose slightly from 1.45bn pesos to 1.49bn pesos. ABN Amro is forecasting full-year earnings of 4.4bn pesos. Interest income rose from 4.62bn pesos to 7.1bn pesos as average interest charges rose from 13.1 per cent to 16.9 per cent. Interest rates have declined recently. On Monday, they fell to an eight-month low of 14.7 per cent.

BPI's exposure to consumer loans such as mortgages and car financing would become a concern in the event of fall-out from corporate bankruptcies spilling into the general public, said one analyst. High interest rates have already caused strains and failures in the corporate sector, with property companies particularly affected. The difficult climate is also expected to lead to consolidation in the banking sector.

Justin Marozzi, Manila

BANGKOK BANK

Japan's Sakura takes 2% stake

Japan's Sakura Bank and three Taiwanese companies were among the main purchasers of new shares issued by Bangkok Bank, Thailand's largest commercial bank, last week. Bangkok Bank issued 440m new shares, raising approximately \$4.1bn (\$1.1bn) in new capital, in order to shore up a balance sheet weakened by Thailand's financial crisis and economic slowdown. It had been actively seeking minority investors willing to take a stake in the bank without demanding managerial control.

Sakura Bank agreed to buy 30m shares worth about \$2.52bn and will end up with just under 2 per cent of the bank. Sakura said it hoped to strengthen financial services catering to Japanese companies operating in Thailand by using Bangkok Bank's large branch network.

The three Taiwanese companies are chemical company Tuntex Distinct, food conglomerate President Enterprise and venture capital company China Development Corporation. Together they agreed to buy almost 10m shares worth \$22m. Siam Commercial Bank, Thailand's fourth largest bank, has bought out its Japanese partners in two subsidiary finance companies in exchange for the Japanese banks buying significant stakes in Siam Commercial.

Ted Sarda, Bangkok

MITSUBISHI OIL

Refiner incurs Y2.7bn extra tax

Mitsubishi Oil, one of Japan's largest oil refiners and distributors, is to incur an extra tax bill and penalties totalling Y2.67bn (\$207m) for income it concealed in a corruption case. The Tokyo Regional Taxation Bureau yesterday demanded that Mitsubishi pay the extra tax for the last financial year, which ended March 31.

Mitsubishi said it would sell assets, including property, to cover the tax bill, so that the forecast results for the last financial year would not be affected. The company already expects to incur a net loss of Y29bn. Bethan Hutton, Tokyo

Credito Italiano S.p.A. 1997 results

The Shareholders' meeting of Credito Italiano has approved the financial statements as at 31 December 1997; key financial highlights are as follows:

Italian lire (in billions)	
SHARE CAPITAL AND RESERVES (after allocation of net profit at the date of approval of the financial statements)	6,791.1
TOTAL LOANS including LOANS TO CUSTOMERS	74,869.4
SECURITIES	51,051.8
TOTAL DEPOSITS including CUSTOMER DEPOSITS	10,257.5
TOTAL ASSETS	81,897.9
GUARANTEES AND COMMITMENTS	50,735.8
INDIRECT DEPOSITS including FROM CUSTOMERS	103,093.4
TOTAL FUNDS UNDER ADMINISTRATION (customers)	27,493.9
GROSS OPERATING INCOME	130,833.4
NET INCOME FOR THE YEAR	104,087.0
	157,484.7
	1,302.3
	408.7

The net income has been allocated to reserves for Lire 177.9 billion and to the distribution of a dividend of Lire 80 per ordinary share and Lire 95 per savings share.

The Shareholders' meeting further resolved:

- to integrate the Board of Directors and appoint as Director Mr. Angelo Marchi, born in Leghorn on 15 October 1928;
- to appoint Coopers & Lybrand S.p.A. to audit the Bank's interim and annual statutory and consolidated financial statements;

The dividend will be payable from 18 May 1998, against the detachment of coupon 18, at all the branches of Credito Italiano, Rolo Banca 1473, Banca Cattolica - Molteni, Banca Commerciale Italiana, Banca di Roma, Banca Popolare del Molise, Banca Popolare di Rieti, Banca Popolare di Spoleto, Credito Emiliano, Rasbank and, for the shares that they trade, at Monte Titoli.



Head Office - Piazza Cordova - 20122 Milano (Italy)

LEGAL NOTICES

STREETSIDE HOLDINGS LIMITED

INCORPORATED IN HONG KONG

Stratford Investments Limited
(Incorporated in Hong Kong)

NOTICE OF GENERAL MEETING TO BE HELD ON 29th April 1998

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ASIAN DEVELOPMENT BANK Integrated Computer Application Software

The Asian Development Bank (ADB), a multilateral development finance institution headquartered in Manila, Philippines, intends to procure integrated off-the-shelf computer application systems (eg Enterprise Resource Planning software), necessary related services to implement the systems, data conversion, the provision of development tools, customisation, and interfaces with legacy systems. In addition, as an option, the procurement of necessary hardware may be included. While the entire legacy systems of the ADB are likely to be replaced, the following systems are planned to be replaced in this initial procurement exercise:

- Core Financial Management System (General Ledger, Accounts Payable, Accounts Receivable, Budget Formulation and Monitoring, Fixed Assets, Procurement and Inventory Systems);
- Treasury/Banking System (Payment Execution, Disbursement Confirmation, Cash Receipts, Bank Account Management Reconciliation, Cash Management);
- Project/Product Management System (Loan and Technical Assistance (TA) Grant processing and Project management, Loan and TA accounting); and
- Human Resources Management System (Recruitment and Selection, Personnel Management, Position Management, Salary Administration, Training and Development, Compensation and Benefits, Payroll, Staff Retirement, Management Reporting).

As it is not feasible to implement all the above applications simultaneously, the Bank anticipates its implementation in phases over three to four years. This would include custom development of additional functions which are not covered by the vendor's base software, system configuration, and training of ADB staff.

Interested bidders must be in a position, whether alone or through a consortium, to provide the required software, hardware and other ancillary services. The bidding is only open to bidders from ADB member countries. Further information including a brief description of the project and qualification criteria for eligibility may be obtained from the address below on or after 23 April 1998.

Bidders who feel that they satisfy the eligibility criteria can purchase the Request for Proposal for US\$500 on or after 20 May 1998 as further described in the above mentioned document, also from the address below. The deadline for submission of proposals is 20 July 1998. While bids are being solicited, the deadline for submission of proposals for the related budget. The ADB will not be responsible for any costs or expenses incurred by bidders in connection with the preparation and delivery of bids.

Head, Procurement and Shipping Section
Office of Administrative Services
Asian Development Bank
8 ADB Avenue
0900 Manila, Philippines
Fax: (632) 636-2577

COMPANIES & FINANCE: ASIA-PACIFIC

SEMICONDUCTORS IBM SEEN AS LEADING CONTENDER FOR CO-OPERATION PACT WITH LOSS-MAKING ASMI DIVISION

Acer in talks over partner for chip arm

By Laura Tyson in Taipei

Acer, the world's third largest personal computer maker, is in talks with potential technology partners for its loss-making chip arm, newly divorced from Texas Instruments, the US electronics group.

IBM is seen as a leading contender for a co-operation pact with the troubled Acer Semiconductor Manufactur-

ing (ASMI), formerly known as TI-Acer. On the personal computer side, Acer recently signed a deal with the US computer group to manufacture a range of products and provide logistics and service.

"We are very much open to various types of technology co-operation, such as design, manufacturing process and other areas, so the technology partners would not necessarily take an

equity stake," said Stan Shih, Acer chairman. He added that new investors had already been found to inject capital into ASMI. "The capital is available here in Taiwan."

To turn ASMI's operations around, Mr Shih said strategy would shift towards foundry, or made-to-order business, which has proved profitable for other Taiwanese chipmakers.

In contrast to Taiwan Semiconductor Manufacturing and United Microelectronics, ranked first and second among the world's foundry chipmakers, Acer would not become a pure foundry chipmaker. The goal was for sales to be split three ways between Acer, the technology partner and foundry customers, said Mr Shih.

ASMI may face difficulties in its plan to enter the fast-growing and lucrative, but highly competitive, foundry chip business at a time when growth in the semiconductor industry is showing signs of slowing. Mr Shih remains optimistic: "We have a brand name, a global distribution network, a captive market and integrated circuit design capability, so we're in a unique position compared with our competitors."

Plummeting prices for dynamic random access memory chips, TI-Acer's only product, caused Acer to suffer a pre-tax loss of T\$4.6bn (US\$139m) last year, the biggest annual loss by a private Taiwan-listed company.

Acer announced last month it would take over TI's 83 per cent stake in TI-Acer, ending the chip joint venture founded in 1989.

Turmoil in Asia spurs on BMW

By Sheila McNulty

During the boom years, any Asian with status drove - or rather, was driven in - an imported luxury car. Those were the years that encouraged BMW and its partners to invest more than DM1.6bn (\$833m) in south-east Asia.

The dividends continued to come in: last year, the German carmaker's deliveries to Asia rose 2.4 per cent to 96,666 units, a new high.

The results would have been better but for the regional financial crisis which started to unfold last July. Asians' purchasing power has been so curtailed that overall car sales in some markets are expected to drop 70 per cent this year.

But Kay Segler, president of BMW Asia, said the carmaker did not focus on short-term cycles. It was committed to the region and was therefore continuing with plans to widen its presence.

Mr Segler said he still saw bright prospects for Asian markets in the medium to long-term, and BMW planned to be in a position to capitalise.

The group has established a regional headquarters, as well as training and parts

centres, in Singapore. It also has assembly plants in Thailand, Indonesia, Malaysia, the Philippines and Vietnam. Last year BMW opened 30 showrooms and service centres, bringing the total to around 200. Mr Segler pledged at the time more would follow. This year it is keeping that commitment, with plans to build or upgrade 33 Asian showrooms and service centres.

Mr Segler believes it will take two to four years for Asia to recover. That gives BMW plenty of time to work toward its goal of coming out of the crisis stronger than it went in. "There are always losers and winners in a situation like this," he said.

In Singapore, for example, the total car market contracted 14 per cent last year, but BMW managed to enlarge its presence and take an 11 per cent share. That is higher it holds anywhere else in the world.

The group sold more than 2,500 cars in Singapore, a 27 per cent rise, which it says makes it the only luxury brand to have increased sales every year in the city state over the past six years. Including Rover, the group says it outsold all other car companies in Singapore.

Hope holds out for triumph over adversary

China's biggest private company has its sights set on the feed business of rival CP Group, reports James Kynge

Li Yonghao, one of four brothers who turned their feed grain operation into China's biggest private company, the Hope Group, is not shy of hyperbole. "The third world war for the feed grain business in China is going to break out," said Mr Liu in a recent interview. "I am well prepared to have a price war in the latter half of this year or perhaps next year."

The adversary filling Mr Liu's sights is Thailand's CP Group, China's largest foreign investor and owner of 33 animal feed mills throughout the country.

Asia's crisis has rendered the Thai company suddenly vulnerable; its Hong Kong-listed subsidiary, CP Pokpand, said last week that it might default on a floating rate note repayment after shareholders asked for an early redemption. Its share price plunged late last week following the announcement.

By contrast, shares in the New Hope Group, the only listed vehicle in the Hope Group and the company run by Mr Liu, surged on its debut on the Shenzhen stock market last month.

Issued at Yn8.9 per share, the listing yielded proceeds of Yn397.52m (\$82.2m). The lion's share is to be used to

upgrade technology and expand production to compete more effectively with CP and other foreign groups such as Miron of South Korea and President Enterprises of Taiwan.

New Hope's shares were yesterday trading at just above Yn18 each.

The CP Group, which is owned by Thailand's richest man, Dhani Chearavanont, has put up for sale a large motorcycle factory near Shanghai. The company is reluctant, however, to consider selling its core feed grain operations. Nevertheless, the possibility that CP's Chinese business empire may unravel is of burning interest to Mr Liu.

"I am looking at these developments very carefully," he said. "At the moment I have not heard of any CP [feed grain] factories up for sale."

Mr Liu's threat of a price war should not be taken lightly. The Hope Group's decision to cut feed prices by 25 per cent in 1996 hit the earnings of several local competitors, especially those that were slow to cut costs.

The Hope Group began life as a quail's egg business in 1983 in the southwestern province of Sichuan. Mr Liu and his three brothers had to

sell their belongings to raise Yn1,000 in seed capital. From their first foray into the feed grain business they were competing with CP, which dominated the market in Sichuan, China's agricultural heartland with more than 70m pigs.

A rustic but catchy advertising refrain, "Ikg of feed, makes your pig grow by 2" and the advantages of local knowledge and contacts have allowed the Hope Group to overturn CP's dominance in Sichuan. Now it is intent on scoring a similar victory throughout China.

The New Hope and South Hope companies controlled by Mr Liu oversee operations in the lucrative southern China market which includes Guangdong, Guangxi, Hunan, Hubei, Yunnan and Guizhou provinces. Mr Liu said that new equipment would be imported and new factories bought to expand both the quality and quantity of feed grain output. South Hope is also looking for a foreign partner, Mr Liu said.

CP controls about 8 per cent of the Chinese market, while the Hope Group - with about 30 feed grain mills - has less than 4 per cent, according to industry analysts.



Feeding frenzy: Hope is prepared to spark another price war to capture more of the pig feed market

lysts. This year and next, Hope plans to buy about five more feed mills in China.

"I hope to expand our market share to about 10 per cent or so in a few years. We have a plentiful source of capital," said Mr Liu.

The main threat to the Hope Group's ambitions appears to come not from its rivals but from within. A feud between the four

brothers surfaced in 1996 and has resulted in the division of their empire into four main companies, the East Hope Group, the South Hope Group, the Continental Hope Group and Melhao Hope Group.

The group, which increased its earnings to about Yn550m last year, compared with Yn300,000 in 1992, is also exhibiting some

of the classic traits of Chinese got-rich-quick businesses. It is diversifying into different areas, including property, electronics and banking.

In the wake of the Asian crisis, such strategies are often a source of alarm among investors. After all, over-diversification was partly responsible for CP's current predicament.

Sony Music rises

Sony Music Entertainment (Japan), the publicly quoted Japanese music group which is 71 per cent controlled by the Sony electronics company, saw consolidated sales advance 10 per cent to Y228bn (\$1.7bn), while pre-tax profits before exceptional gains surged 82 per cent to Y19.54bn.

Net earnings almost tripled from Y12.8bn to Y36.38bn and earnings per share jumped 180 per cent from Y118.48 to Y336.32.

However, the company warned that consolidated group sales in the current year were likely to fall 3 per cent to Y218.1bn.

It said pre-tax profits before exceptional gains would also decline, down 50 per cent to Y9.8bn, and net profits 12 per cent to Y31.9bn.

The company said advertising costs for new talent as well as start-up costs associated with Sky PerfecTV, a satellite broadcast venture, would also dent earnings.



MONDIAL ASSISTANCE

MONDIAL ASSISTANCE:
strong growth of sales and profits

With consolidated sales of FF. 1.391 billion, +27.8% (13% on a like-for-like consolidated basis) and net consolidated income (excluding minority interests) of FF. 19.5 million, +11.4%, the trend of positive performances recorded by MONDIAL ASSISTANCE since its creation was continued in 1997 both in terms of growth and profitability.

Strong sales strengthened by new services and the performance of international operations:

- ◆ In France several types of services registered particularly strong growth, highlighting the constant evolution in the Group's business.
 - home assistance (+50%);
 - tele-assistance, reinforced with the acquisition of the company GTS, leader in the segment of local authorities;
 - job search assistance and assistance for first job seekers which were launched by the Group continue to be particularly successful;
 - services related to mobile telecommunications.
- ◆ On the international front, the active investment strategy is producing results:
 - international sales for the first time exceeded those in France (FF. 715 million versus FF. 678 million);
 - certain subsidiaries, the UK and Brazil in particular, registered strong increases in sales and profits;
 - this strategy was made possible through an increase in capital of FF. 100 million, a tangible proof of the confidence of the shareholders.
- ◆ In total, MONDIAL ASSISTANCE provided assistance somewhere in the world every nine seconds (3,640,000 interventions, an increase of 74% over 96).

A significant rise in profits

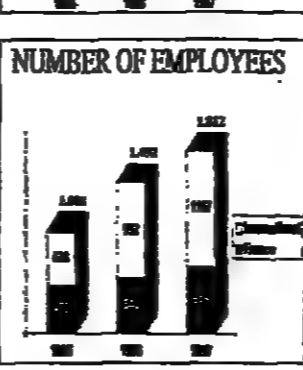
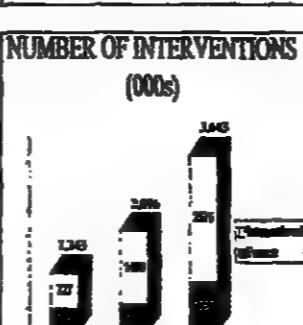
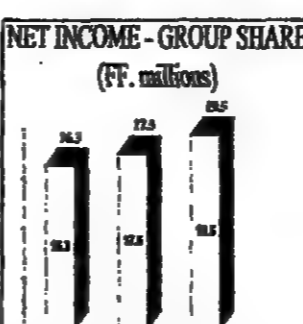
- ◆ The rise in profits (+11.4%) is even more significant since it was accompanied by major investments made by MONDIAL ASSISTANCE, particularly overseas. Four subsidiaries were created in 97:
 - in South America, after the acquisition of MERCOSUL of Brazil, operations were opened in Chile and Argentina;
 - in the Mediterranean region, subsidiaries in Greece and Turkey were launched.
- ◆ This rise in net profits enables permits the group to maintain a two digit return on equity (10.9%).

ISO 9001 certification

- ◆ FRANCE SECOURS and MONDIAL ASSISTANCE FRANCE were the first assistance companies in France and in the world to be awarded ISO 9001 certification;
- ◆ The subsidiaries in Italy, Spain and Brazil have also been awarded ISO 9002 certification.

1998, a year of consolidation

- ◆ The strong growth of activity has led Mondial Assistance Group to reinforce its teams. The total number of employees has increased from nearly 900 in 1994 to 2000 (estimate for the end of 98);
- ◆ After several years of strong internal and external growth, 1998 will be a year of consolidation during which the Group will optimize its organization while maintaining its level of profitability.



6,440,000 Shares



Common Stock

1,288,000 Shares

This portion of the offering was offered outside the United States by the undersigned.

Goldman Sachs International

NationsBanc Montgomery Securities LLC

PaineWebber International

Credit Lyonnais Securities

5,152,000 Shares

This portion of the offering was offered in the United States by the undersigned.

Goldman, Sachs & Co.

NationsBanc Montgomery Securities LLC

PaineWebber Incorporated

BancAmerica Robertson Stephens

Hambrecht & Quist

J.P. Morgan & Co.

Salomon Smith Barney

Black & Company, Inc.

Dain Rauscher Wessels

D.A. Davidson & Co.

Gruntal & Co., L.L.C.

A Division of Dain Rauscher Incorporated

HSBC Investment Banking

Edward D. Jones & Co., L.P.

Pacific Crest Securities Inc.

Piper Jaffray Inc.

Ragen MacKenzie

Scott & Stringfellow, Inc.

Stephens Inc.

Incorporated

Sutro & Co. Incorporated

April 1998

ROBECO GROUP

RG AMERICA FUND N.V.
RG EUROPE FUND N.V.
RG PACIFIC FUND N.V.
RG EMERGING MARKETS FUND N.V.
(Investment companies with a variable capital)

ANNUAL GENERAL MEETINGS OF SHAREHOLDERS
to be held on Tuesday, 26th May, 1998, at the offices of the Companies, Coolings 120, Rotterdam, the Netherlands at 09.30, 10.15, 11.00 and 15.00 hours respectively.

The agendas, annual reports and annual accounts are available for perusal by Shareholders and other entitled parties at the offices of the companies and at National Westminster Bank PLC, NatWest Investments Counter, c/o NatWest Markets, 1st Floor, 135 Bishopsgate, London EC2M 3UR.

Shareholders wishing to attend and vote at one of the Meetings, should notify the Management Board of the relevant Company in writing, not later than 19th May, 1998, submitting the Certificate of Deposit of their shares, which may be provided on request by the bank or institution in question. Confirmation of the registration will include an agenda, which also serves as the admission ticket to the meeting.

Any persons other than Shareholders, legally entitled to attend the meetings, and those authorised to vote, should lodge the supporting documents at the offices of the Company by 19th May, 1998 at the latest. They will receive an admission ticket or, as the case may be, a document attesting to their voting right.

For further details please contact the above-mentioned bank or Robeco UK Limited, 46 Berkeley Square, London W1X 6LA. Tel: 0171-409 3507.

RG AMERICA FUND N.V.
RG EUROPE FUND N.V.
RG PACIFIC FUND N.V.
RG EMERGING MARKETS FUND N.V.
Rotterdam, 29th April, 1998

COMPANIES AND FINANCE: UK

Vickers surprises with appointment

By Andrew Edgecliffe-Johnson

Vickers surprised the market yesterday by appointing Paul Buysse, who left BTR with £1.14m (£1.9m) compensation in January, as chief executive of the restructured engineering empire.

Mr Buysse, who had run the power drives division of the restructuring conglomerate since 1994, will join Vickers just as it is attempting to conclude a sale of Rolls-Royce Motors, and is facing questions over its future shape and direction.

BTR gave no explanation three months ago for the decision to make Mr Buysse's decision to make "early retirement" at the age of 53. Vickers said yesterday: "From our point of view, that is history."

Sir Colin Chandler, who became chairman at Vickers

annual meeting last April, has also held the position of chief executive for the past year.

Yesterday, as he was rehearsing for today's annual general meeting, he said: "We are delighted to have secured the services of an international industrialist of Paul Buysse's pedigree."

He signalled that acquisitions are likely to be a prominent feature of the group's strategy, saying: "The experience he brings to us, not only in executive management but also in acquisitions and their subsequent integration, will be of immense value to Vickers."

Vickers has provisionally agreed to sell Rolls-Royce for £340m to BMW, but Volkswagen is also vying for the luxury car maker. Some analysts are pressing for Vickers to distribute the cash to

shareholders, and to break up the remaining defence and marine propulsion businesses.

David Essex, Vickers' managing director, said he doubted that Mr Buysse would be expected to conduct the Rolls-Royce negotiations. He dismissed as "utterly ridiculous" suggestions that the appointment of a non-defence expert was a signal that the group was seeking an exit from defence activities, which include the Challenger 2 tank.

Mr Essex said Mr Buysse "was chosen because he was someone capable of taking this company forward, who was familiar with the City and with a global company, and who understood engineering. He is a man of stature, which is important in playing in the international field."

Sears to return capital to holders

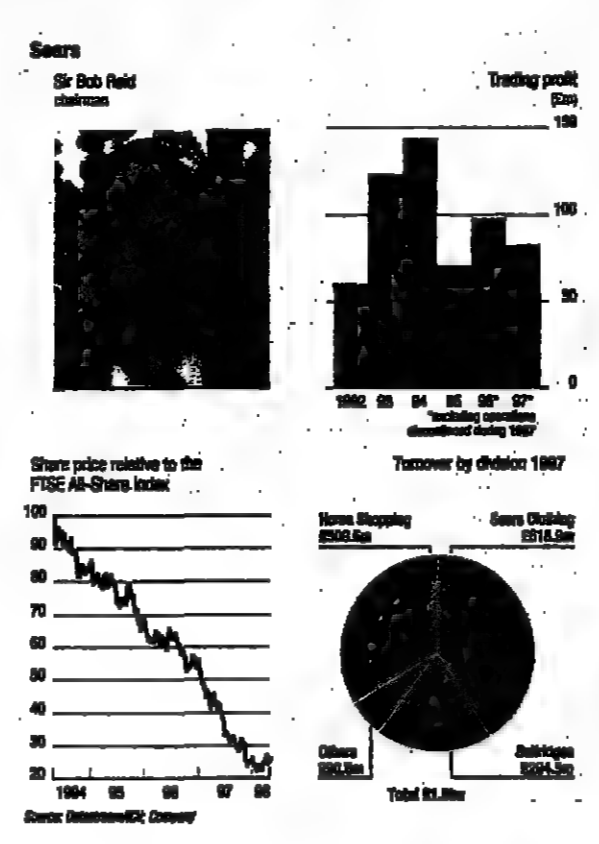
By Robert Wright

Sears, the retail conglomerate, plans to return capital to shareholders once it has completed the demerger of Selfridges, its flagship department store, and Freemans, its mail-order catalogue.

Sir Bob Reid, chairman, refused to say how much might be handed back, but said analysts mentioned figures of £77m-£150m (£130m-£250m). "We will know the quantum by October or November," he said.

According to the preliminary results, British Shoe Corporation, the footwear business sold last year, was disposed of without need for additional provisions. The company set aside £150m last year to cover the costs of restructuring. A property revaluation had also seen Sears' freehold and long leasehold properties revalued upwards by £123m, £101m of which related to Selfridges' Oxford Street store. The revaluation of this store takes the building's value to about £200m.

However, in the last results before Selfridges' planned demerger in July, the store's operating profits



for the year to January 31 fell to £22.7m (£26.5m) on turnover down to £395m (£398m). The company said profits were hit by £3.3m of non-recurring costs.

Total exceptional items of £170m resulted in pre-tax losses of £118m (profits of £88.1m).

Analysts predict pre-tax profits of only about £58m for Sears this year, and earnings per share of 3.3p. At yesterday's close of 59p, that puts the company on an

above-sector rating of 18.6 times, when its performance suggests it deserves lower. But valuations based on asset values suggest Sears should be worth far more.

Nevertheless, analysts approve of the planned break-up. They say it will be easier to understand the business once relatively small women'swear chains like Wallis and Miss Selfridge are separated from the mail-order business and the Selfridges department store.

COMMENT

Sears

No one could accuse Sears of inactivity. A year ago Liam Strong, chief executive, paid the ultimate price for years of underperformance. Since then the company has disposed of the loss-making British Shoe, and plans are afoot to demerge both Selfridges and Freemans. But has it made any difference? Share price underperformance against the market of about 40 per cent suggests not.

With Sears, of course, it is all too possible that the alternative would have been worse. Indeed, getting shot of British Shoe prevented losses escalating further. And the Selfridges demerger plan has injected an element of bid speculation that is underpinning the share price. No amount of corporate activity, though, can hide the fact that Sears is a less than glittering collection of assets. Poor trading figures make that clear enough. The best hope for shareholders is that some trophy hunter steps in and pays over the odds for Selfridges. But they should not expect too much: Oxford Street is not Knightsbridge, and Asian suitors are in shorter supply than a year ago.

UK congestion tax

Rationing road use through congestion is inefficient. Building new roads - the long-standing response to dire traffic forecasts - further disguises the car's true social cost. However, charging for road use in built-up areas, a wheeze likely to feature in John Prescott's forthcoming transport white paper, will require politically tough decisions at the local level that some authorities may shirk.

Mr Prescott's solution is "hypothecation". If local authorities can keep the revenues and promote public transport - rather than watch them disappear to Whitehall - the tax will be easier to sell. Public transport operators, such as Stagecoach, FirstGroup and National Express, would, of course, be laughing all the way to the bank. Passengers would be both pushed into public transport by taxes and pulled on by better services on more routes. And in a business where marginal income flows straight to the bottom line, strong passenger growth does wonders for profits.

Clearly, providing local authorities with the incentives to levy these charges is important. But tying their hands as to how these revenues should be used may be short-sighted. After all, how many bus and cycle lanes can be built?

Bluebird Toys battle continues

By David Blackburn

Guinness Peat, the investment group chaired by Sir Ron Brierley, is refusing to admit defeat in its battle with Mattel, the US toy giant, over Bluebird Toys.

Yesterday, it announced it was extending its offer until May 5, while considering further its position in the light of Mattel launching a bid at the end of March.

This refers to Mattel's decision to exercise its rights under a licence agreement with Bluebird to take control of the manufacturing of its Polly Pocket toys and to restrict Bluebird's margins in other markets where Mattel distributes Polly Pocket.

Guinness Peat, which has almost 28 per cent of its target, is understood to be prepared to increase its offer from 101p a share if it can see details of Bluebird's con-

tract with Mattel. It is also believed to have contacted other potential distributors for Polly Pocket, including Hasbro, which has almost 7 per cent of Bluebird's shares.

Mattel on Monday extended its 111p a share offer until May 8 and revealed that it had won acceptance on just over 16 per cent of the shares.

Bluebird, which relies on Polly Pocket for 80 per cent of sales, has recommended Mattel's offer. It has warned of a "significant" reduction in its profits following Mattel's exercise of the licence agreement rights.

Late last week, Guinness Peat said it was considering an appeal to the Takeover Panel to get Mattel to reveal details of the Polly Pocket contract. The panel executive said that the contract did not need to be disclosed under any of its rules.

FIRST QUARTER SALES up 20.4% to FF 24,375 million

PIRELLA PRINTEMPS-REDOUTE

The Pirella Printemps-Redoute group recorded FF 24.4 billion in consolidated sales for the first quarter of 1998, up from FF 20.2 billion for the same period in 1997, a 20.4% increase. The change in sales by division breaks down as follows:

In FF millions	First quarter 1997	Change
Retail Division	11,213	2.3%
Wholesale Division	7,431	49.4%
International Trade	1,604	12.2%
TOTAL	20,248	20.4%

These data also take account of the full consolidation of Galleries of January 1, 1998 and the legal subsidiaries H&M, Autostar and H&M New Zealand as of February 1, 1998. However, they do not take into account Redoute's sale over of the United States which was finalised on April 2.

Beyond the favourable loan effect related to limited sales growth in the first three months of 1997, first quarter of 1998 benefited from a combination of year-end updates in business, despite a drop-off towards the end of the quarter.

The apparently modest 2.3% improvement in the Retail Division, was offset by the withdrawal of Primark from the 1998 figures. In reality, good performance was posted by Primark to recent openings and solid growth in sales with constant selling surface basis and by Conforama whose marketing momentum further amplified the positive trend of the market. La Redoute's sales gains abroad, driven by the integration of 500s in the second half of 1997 and the introduction of catalogues outside France, allowed the Redoute group to offset the weak activity of Redoute France. After an excellent January, Primark's growth levelled out in February and March.

Under the integration of Primark and the Retail Division, the Wholesale Division's sales rose nearly 50% in the first quarter. Both of the divisions also benefited from a good level of business.

Overall, changes in group structure and currency effects contributed FF 1,750 million and FF 302 million respectively to the growth in sales.

Consolidated sales rose 9.2% on like-for-like basis with Retail up 8.9%, Wholesale up 9% and International Trade up 13.3%.

In the Financial Services Division, Pirella's outstanding loans were up 11.9% of 31 March.

UB in talks for Campbell offshoot

By Richard Tomkins in New York and John Williams in London

Campbell Soup, the US food group, is in talks with United Biscuits of the UK over the sale of Delacorte, its European biscuits business.

Delacorte has three factories making luxury biscuits under its own brands such as Delicchio, Cigarettes Russes and Maison Delacorte as well as for retailers. Its sales were \$180m in the year to July 1997, with estimated profits of \$10m and a likely price of about \$110m.

The sale is subject to the approval of regulators in the countries concerned and there is a statutory consultation process with employees which has begun.

The disposal is the latest in a series by Campbell Soup, which has been selling non-core businesses to concentrate resources in three sectors: soup and sauces (Campbell's and Pace), biscuits and confectionery (Pepperidge Farm and Godiva) and food service - supplying food to the catering industry.

Last month, it completed the spin-off of several non-core businesses with sales of \$1.4bn under the umbrella of Vialis Foods International. It also announced it would sell more non-core businesses with annual sales of about \$170m.

Separately, Campbell Soup has also decided to abandon a line of mail-order frozen foods called Intelligent Eating, aimed at people suffering from high cholesterol or diabetes. The company sent at least \$30m on the product, analysts said.

For UB, Delacorte would bolster its operations in France, Belgium and the Netherlands and take it into the German market.

RESULTS

		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividend/earnings ratio	Total for year	Total last year			
Alexandra Workwear	Yr to Jan 31	88	(88.9)	5.6	(1.16)	10.7	(2.2)	4.3	July 3	4	7	6.5
Alpha Holdings	3 mths to Mar 31	8.26	(8.21)	1.66	(0.772)	2.61	(1.4)	-	-	-	-	-
Barclays	Yr to Dec 31	8.3	(5.57)	2.2	(2.22)	5.047	(5.28)	1.75	May 26	1.55	2.5	2.3
Bathurst	Yr to Jan 31	19.5	(19.2)	0.76	(0.238)	1.62	(0.53)	1	June 26	0.5	1.25	0.5
Car's Milling	8 mths to Feb 28	43.9	(43)	0.5834	(1.7)	5.5	(14.5)	3	June 4	3	7	11.5
David Brown	Yr to Jan 31	191.9	(181.8)	15.014	(17.104)	17	(17.7)	6.3	July 3	5.76	9.2	8.4
Falconet	6 mths to Feb 28	4.7	(3.42)	1.981	(0.132)	5.3	(0.4)	-	-	-	-	-
Leeds Sporting	6 mths to Dec 31	15.6	(12.5)	1.141	(2.271)	0.381	(0.8)	-	-	-	-	-
McCarthy & Stone	8 mths to Feb 28	41	(32.1)	0.1	(0.9)	5.2	(3.2)	1	July 1	0.88	-	-
MY Holdings	8 mths to Feb 28	47.1	(45)	0.51	(0.5)	3.44	(3.36)	0.85	June 11	0.8	-	2.6
Ross	Yr to Dec 31	26.1	(26)	0.496	(0.224)	0.22	(0.25)	18	18	18	18	18
Sainsbury	Yr to Jan 31	1,819	(1,852)	115.71	(161.1)	7.3	(3.3)	2.9p	July 24	2.9	3.85	3.85
S&P	Yr to Jan 31	80.5	(80.5)	7	(7.1)	42.3	(39.3)	14.5	July 1	14	18	18
Unit Auctions	Yr to Jan 31	9.02	(10.2)	0.159	(2.069)	24.9	(98.4)	5.25	May 26	5	9.25	9
Utility Cable	8 mths to Feb 28	35.5	(35.1)	3.071	(1.78)	2.061	(0.82)	11	11	0.27	-	0.27
Investment Trusts		NAV (p)	Attributable earnings (£m)	EPS (p)	Current payment (p)	Date of payment	Dividend/earnings ratio	Total for year	Total last year			
Albion High Inc	6 mths to Mar 31	121.5	(94.82)	1.87	(1.79)	3.51	(3.38)	25	May 19	1.55	-	6.65
British Empire	6 mths to Mar 31	140.34	(135.49)	1.53	(1.11)	0.81	(0.58)	0.25	June 12	1.25	-	1.07
Caribbean Enterprise	6 mths to Mar 31	318	(250.18)	0.2081	(0.0771)	0.541	(0.4)	-	-	-	-	1.54
Cheltenham Enterprise	Yr to Mar 31	173.4	(155.3)	0.9821	(0.7841)	3.211	(2.611)	-	-	-	-	-
Mercury Trustees	6 mths to Mar 31	1,227	(802)	1.81	(2.02)	12.71	(14.26)	8	June 18	6.5	-	21
Mersey Ship Corp	8 mths to Feb 28	390.4	(294.955)	0.243	(0.279)	3	(3.5)	3.05p	July 3	2.9	-	12

Earnings shown above. Dividends shown next. Figures in brackets are for corresponding period. All for exceptional charge. For exceptional credit. For increased capital. For increased dividend

SmithKline defends conduct

By David Blackburn

Sir Peter Walters, chairman of SmithKline Beecham, yesterday defended to shareholders the group's conduct during the collapse of merger talks with its UK rival Glaxo Wellcome.

"Glaxo Wellcome broke the deal and left us no alternative but to end the discussions," he told the annual meeting in London.

The board believed that the move away from the fundamental principle of a merger of equals to one of a no-premium takeover would have destroyed rather than created value for shareholders.

The shares added 16p to 631p. Analysts suggested the price was recovering from the sell-off following the failed merger talks.

To Jan Leschly, chief executive, yesterday ruled out the possibility of a merger with Zeneca, adding that SmithKline had "a bright future as an independent company".

MERCURY SELECTED TRUST (SICAV)
Postal address: B.P. 1058, L-1010 Luxembourg

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of Mercury Selected Trust ("the Company") will be held at its registered office at 6D, route de Trèves, L-2633 Senningerberg, Luxembourg at 11.00 am on 15th May 1998 for the purpose of considering and voting upon the following matters:

Agenda

- To accept the Directors' and Auditors' reports and to adopt the financial statements for the year ended 31st December 1997.
- To declare such dividends for the year ended 31st December 1997 as may be recommended by the Board in accordance with the dividend policy of the Company and to fix their date of payment.
- To discharge the Directors from their responsibilities for all actions taken within their mandate during the year ended 31st December 1997 and to approve their remuneration.
- To re-elect Mr S B Cohen, Mr F P Le Feuvre, Z O H M Baron van Hovell, Mr V McAviney, Mr J Reimnitz, Mr B Stone, Mr P Stormwath Darling and Mr F Tesch as Directors.
- To discharge the Auditors from their responsibilities for all actions taken within their mandate during the year ended 31st December 1997.
- To re-elect the Auditors.
- To decide on any other business which may properly come before the Meeting.

Resolutions on the Agenda may be passed without a quorum, by a simple majority of the votes cast thereon at the Meeting.

Voting Arrangements

The holders of bearer shares must deposit their shares not later than 7th May 1998 either at the registered office of the Company, or with any bank or financial institution acceptable to the Company, and the relative deposit receipt (which may be obtained from the registered office of the Company) must be forwarded to the registered office of the Company to arrive not later than 13th May 1998. The shares so deposited will remain blocked until the day after the Meeting or any adjournment thereof.

Shareholders who cannot attend the Meeting in person are invited to send a duly completed and signed proxy form to the registered office of the Company to arrive not later than 13th May 1998. Proxy forms for use by registered shareholders are included with the annual report and can also be obtained from the registered office. A person appointed a proxy need not be a holder of shares in the Company; indeed, of a proxy form will not prevent a shareholder from attending the Meeting if he decides to do so.

29th April 1998 The Board of Directors
REGISTERED OFFICE: 6D ROUTE DE TRÈVES L-2633 SENNINGERBERG, LUXEMBOURG, LUXEMBOURG BASIN

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BP to sell
PNG interests
to Oil Search

To the shareholders of
Saga Petroleum AS

PHARMACEUTICALS PERPETUAL CONSIDERS DEMANDING REFORMS

Call for EGM likely at British Biotech

By Jonathan Gribble

Perpetual, the investment manager which holds a 9.5 per cent stake in British Biotech, said yesterday it may call an extraordinary general meeting to demand far-reaching reforms at the company, including a shake-up of senior management.

The move is a further blow to the embattled company's board, led by founder and chief executive Keith McCullagh. Since his dismissal last Monday, Dr Andrew Miller, formerly head of clinical trials, has made a series of damaging allegations about the conduct of board directors and the handling of clinical trials of drugs vital to the company's future.

The stock exchange is now believed to be investigating share sales by directors, including Mr McCullagh. The US Securities and Exchange Commission is meanwhile assessing whether press releases on trials of marimastat, Biotech's potential blockbuster

anti-cancer drug, were over-optimistic.

Analysts have called for Mr McCullagh to step down. Bob Yerbury, chief investment officer of Perpetual, who stressed that his views were personal, said: "There will have to be changes. I cannot say whether Mr McCullagh should be replaced. But things cannot continue as before."

Perpetual is understood to be seeking the support of other shareholders. It needs only a further 0.5 per cent of shares to reach the 10 per cent threshold for calling an EGM. The meeting would consider British Biotech's commercial strategy. Dr Miller has criticised plans for it to become a large pharmaceuticals business, selling its drugs through its own sales force. This has involved heavy capital expenditure.

Mr Yerbury said: "My own view is that small biotechnology companies should out-license their products (to big distributors)." He said current spending of about \$50m (\$100m) a year was

"out of kilter" with the prospects for drugs under development.

He said: "You cannot achieve shareholder value by hype... but this company has not always been as careful as it should have been." Mr Yerbury said the sackings of Dr Miller, for discussing company strategy with Perpetual, "was entirely inappropriate." He said he was unclear whether Dr Miller should be reinstated but said: "He is the one that designed the trials... he is bright, experienced and has enormous integrity."

British Biotech is believed to have promised Perpetual a full explanation of disclosures by Dr Miller by tomorrow. Executives at the fund manager were dismayed by news yesterday that a full statement might not be published for a month.

Dr Miller yesterday issued an open letter explaining his actions and calling for changes in the management of British Biotech.

Lex, Page 18

The sauce for the goose may not suit the gander

Alexander Nicoll outlines GEC-Marconi's ideas for the success of Europe's defence industry

The recipe for success for European companies making electronic systems for military aircraft may differ from that for aircraft frame builders, who face growing government pressure to merge into one.

That is the view of GEC-Marconi, the defence arm of General Electric Company, which has submitted its vision of the future to European governments.

It believes in building businesses where its markets are, and is simultaneously pursuing an alliance with Alenia of Italy and an agreed takeover of Tracor, a US electronics company.

These moves will add to existing ventures with Thomson-CSF of France in sonar, and Matra, a subsidiary of France's Lagardere, in satellites.

"We think it is not a question of Europe or the US," says Peter Gershon, managing director of GEC-Marconi. "It's a question of how to build footprints in the US and in Europe which take us towards having a globally competitive business."

GEC was not asked to respond when British, French and German govern-

ment leaders last December challenged aircraft makers to produce a plan for consolidation of their industry, which is coping with a declining market and formidable competitors in the US.

British Aerospace, Aerospatiale of France and Daimler-Benz Aerospace of Germany produced a report last month. But other companies also responded, since the issues were vital to many areas of the diverse defence business, especially electronics.

Rather than setting out a plan, GEC-Marconi analysed what factors will be critical for successful companies in defence electronics. In its view, there is as strong a burden on governments to act as there is on companies, if a healthy, consolidated industry is to emerge.

First is the need to operate on sufficient scale, so that companies can compete with US rivals such as Raytheon, Lockheed Martin, Northrop Grumman, and TRW.

The crucial element in producing items in adequate volume is not merging suppliers, but harmonising buyers' requirements. US com-

panies supply a single customer, the Pentagon. But for Eurofighter, the biggest European collaborative project, manufacturers have to meet many specifications individual to the four purchasing countries.

As part of increasing companies' potential to be efficient, governments have to speed up notoriously slow procurement processes, GEC-Marconi believes. This is the goal of the Pentagon's drive for acquisition reform and of the UK's "smart procurement" initiative.

To be globally competitive, in GEC-Marconi's view, electronics companies have to be continually developing leading edge technology.

But the dynamics are not the same as for a new drug or a faster computer chip. No defence company can afford to sink substantial resources into a new gadget without the prospect of a sale.

So the customers - governments - have to drive the technology through the programmes which they contract to the industry.

At present, this is mostly

happening in the US, where companies are working on unmanned flight, lasers and a host of other projects. But British groups have a stake in the cutting edge through participation in development of the Joint Strike Fighter and Tracer advanced reconnaissance vehicle, both of which are due to be bought by the US and UK.

Governments have to ensure that the consolidated companies that emerge in the European defence business can secure orders globally. This means action in areas such as export licences and especially on access to Pentagon contracts.

If governments can help consolidation with action on procurement, technology and market access, companies too can do a lot, GEC-Marconi believes. They can improve productivity, which according to independent consultants is considerably lower than that of their US rivals - which are themselves in the middle of a concerted push to become leaner.

Companies can do their utmost to develop export markets since, in Mr Gershon's view, "no domestic

market is going to be big enough."

They also have to ensure they have the skills not only to produce and integrate large-scale systems, but to support them throughout their life in service.

In suggesting these criteria for success, GEC-Marconi focused on electronics companies which supply the systems for "platforms" - aircraft, missiles, satellites, ships or vehicles. But other defence companies will see them as applying equally well to their sectors.

GEC-Marconi seems set to continue its policy of forging alliances and making purchases - though a much mooted merger with BAE does not appear to figure in its plans.

It is interested in buying Northrop Grumman if US courts do not permit Lockheed to buy it. It will continue to develop its links with its rival Thomson-CSF, which is being expanded and restructured by the French government.

But the pace will not be forced. "We believe in the art of the possible," says Mr Gershon.

BP to sell PNG interests to Oil Search

By Anthony Entwistle

British Petroleum is to end 70 years of oil and gas production in Papua New Guinea.

In an effort to streamline its portfolio by shedding non-core assets, BP has agreed to sell its upstream interests in the archipelago to Oil Search, its long-term local partner, for \$400m. The deal, which doubles the size of Oil Search's oil reserves to 115m barrels of oil, is to be completed later this year.

"We believe we have better prospects elsewhere, so we have decided to sell these non-core assets in order to focus on such key areas as Alaska, the Caspian Sea and the Gulf of Mexico," BP said.

Oil Search said: "What might be relatively small for BP, represents big potential for Oil Search and moves it to a new league of production revenue and reserves."

BP's reserves in Papua New Guinea include 36m barrels of oil and 3 trillion cu ft of gas, largely undeveloped. BP produces 13,000 bar-

rels of oil and 15m cu ft of gas a day. But the company said the difficult geology of the area and its remoteness from the main oil and gas markets meant considerable investment was required to develop the reserves.

The main output of the Papua New Guinea assets is natural gas. Exploiting it would require either construction of a 3,000km pipeline to supply Australian customers, or shipping the liquefied gas in special tankers to east Asia.

BP, which also has 23 per cent of Papua New Guinea's retail and commercial market, said it would keep its downstream operations and solar business.

Separately, BP Chemicals is investing \$200m in a polyethylene plant at Grange-mouth as part of its \$500m petrochemical development in Scotland.

The plant, to be completed by 2000, will produce 300,000 tonnes a year of soft plastic, used in plastic bags and food packaging. The production will be based on liquid gas feedstocks from the North Sea.

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To the shareholders of Saga Petroleum ASA

Revised notice of annual general meeting on 14 May, 1998

The annual general meeting will be held in the Auditorium, InfoRena, Sandviksveien 184, Sandvika, Norway at 1700 hours on Thursday 14 May, 1998. For agenda and further information, visit Saga Petroleum's web site on <http://www.saga.no>

Sandvika, 22 April 1998
Torbjørn Haug
Chairman, corporate assembly

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COMMODITIES & AGRICULTURE

Southern Indian tea states hit by dry weather

By Kunal Bose in Calcutta

The three southern Indian states, which account for 25 per cent of the country's tea production, have been harvesting a poor crop for over a month in the current season because of the extremely dry weather.

Production in Sri Lanka, which is in the same climatic zone as southern India, has also started suffering a setback.

"Last year, both Sri Lanka and south India produced bumper crops. Even then, they got very good prices for

tea," said Vijay Dudge, chairman of Paramount Tea, a broking house.

"The 37m kg fall in the Kenyan crop to 220.7m kg last year boosted world tea prices. The brokers think there will be no easing in tea prices in the current season, in spite of Kenya being on target for record tea production in 1998."

P.K. Sen, chairman of J. Thomas, the world's largest tea broking company, said that what had to be factored in was that "Russia and the other Commonwealth of Independent States

are now returning to their normal consumption of tea since the disintegration of the Soviet Union."

"We also expect Iran and Iraq to buy a lot more tea this season. The expected rise in the world trade in tea will work to the advantage of the producing countries."

Assam and West Bengal, India's most important tea growing states, are about to move into high production in the current season and the tea auction centres in Calcutta, Guwahati and Shillong are seeing good demand for the first flush tea.

An industry official said the fall in the prices of tea grown in south India was "entirely due to the panic selling by the growers."

He added: "The federal government has permitted the import of 'cheaper tea' to be sold only in packets and the move has unpurged the industry in the south, especially the smaller groups."

But this is only a temporary phenomenon.

Mr Sen pointed out that "tea prices had risen hugely since August last and therefore, the price rise from now on can only be modest."

"I don't foresee any fall in auction prices until at least the end of third quarter, by which time the major part of the crop is harvested. But average tea prices for the current year will be higher than last year."

The Indian Tea Board has yet to fix the production and export targets for the current year.

According to tea industry officials, however, the production target for 1998 will be between 330m kg and 340m kg, compared with last year's actual production of 310.6m kg.

"This is in spite of south India losing some crops in April and parts of Assam getting hit by hail storms," said Paramount Tea's Mr Dudge.

"Because of the sustained campaign to bring new land under tea, especially in non-traditional areas and the replantation and rejuvenation of tea bushes, India's production base is expanding," he said.

"Production from new and rejuvenated bushes can compensate for crop loss in some areas," he added.

Industry officials say

India's tea exports in 1998 will rise by at least 17m kg to 220m kg.

"Russia is once again showing a distinct preference for Indian tea, as are some other Commonwealth of Independent States constituents. Pakistan, which imports nearly 150m kg of tea, is expected to buy more from India," said Mr Sen.

"The lowering of Pakistani import duty to 55 per cent from 65 per cent will help us. But our export to the UK may fall because in Kenya business is back to normal," he said.

Oil ahead on news of Iraq sanctions

MARKETS REPORT

By Peter Johns

Oil prices opened stronger in European trading after the United Nations Security Council announced it was maintaining sanctions on Iraq production.

June-dated Brent blend started the day at \$14.55, up more than 20 cents on Monday's London close following strong trading on the Singapore International Monetary Exchange.

However, the contract traded flat throughout the rest of the day and settled at \$14.55 on the International Petroleum Exchange.

The UN decision on Iraq was made after day-long meetings, and although it was not a surprise, the outcome extended the improved tone in the market, which had been sparked by talk that more output cuts by OPEC were possible.

Erwin Arrieta, Venezuela's oil minister, said further cuts could come before an OPEC meeting to be held in Vienna in June.

On the London Metal Exchange copper slipped but held above \$1,880 a tonne. Copper was stalled by technical selling, with \$1,900 seen as a chart barrier.

Dealers said that shipments of Russian standard cathode were beginning to arrive in Europe but LME stocks continued to fall, premiums remained high, and the market continued to be tight. Prices peaked at \$1,887 before ending down a net 8¢ at \$1,883 a tonne.

Zinc slipped in spite of the news that Boliden had shut down its Los Frailes lead-zinc mine in Spain.

Cocoa futures closed lower on Liffe after failing to break through the \$1,100 barrier. Dealers said there was short covering by funds in early trading but trade selling stemmed the potential gains.

Gwalia companies in family reunion

Two Australian mining groups decide even bigger is better, writes Kenneth Gooding

Harry Oppenheimer, doyen of the world's mining industry, backed a project seven years ago in Western Australia that aimed to bring long-term price stability to the tantalum market.

This heavy metal is mainly used in electronic components for such things as laptop computers and mobile telephones.

One of Mr Oppenheimer's family investment companies put money in 1991 towards the expansion of a big tantalum mine owned by Gwalia Consolidated, the world's biggest producer of the metal.

Now he is being offered the opportunity to enlarge his Western Australian interests. Gwalia is merging with an associated company, Sons of Gwalia, one of the top five Australian gold producers.

The Oppenheimers will have about 5 per cent of the merged Gwalia group, and, according to Peter Lalor, managing director of both Gwalia companies, "they are very happy to have exposure to gold, industrial minerals and a dividend flow."

Other shareholders have also reacted positively. Last week holders of nearly

99 per cent of the companies' shares voted in favour of the merger.

Société Générale, the French investment bank, will be the biggest shareholder, with nearly 10 per cent, while Mr Lalor and his brother Chris, an executive director of both companies, will have 3 per cent.

The Lailors have been directors of both Gwalia companies since 1981, and some analysts have been recommending a merger almost ever since then.

Sons of Gwalia owns 18.6 per cent of Gwalia Consolidated and Consolidated owns 17.9 per cent of SoG, cross-shareholdings which made both companies practically bid-proof. "Doing away with those cross-holdings is positive as far as the market is concerned," says Peter Lalor.

After the merger two other key issues will quickly have to be dealt with: constructing a board for the combined Gwalia group; and deciding whether Gwalia should remain committed only to Australia or expand internationally.

Even by Australian standards, the Lailors have come a long way in a short time. Only 28 months ago SoG,

which is absorbing Consolidated, was - in production terms at least - one of the also-rans among Australian gold miners. Its main claim to fame was that it was the first gold mining company in the world to start seriously hedging its production.

Three quick deals then propelled SoG into fifth place among Australian gold producers and a place in the FTSE Gold Mines Index. Its annual gold production jumped from less than 300,000 tonnes in 1984-85 to nearly 500,000.

The deals gave SoG six mines and three processing centres in Western Australia. The three key mines are the Sons of Gwalia at Leonora; Marvel Loch, near Southern Cross; and Yilgarn Star, a little farther south.

SoG's rapid expansion took place just before the gold price collapsed and some of the acquirers' prices now look on the high side. SoG reassessed its assets last year and wrote off a net \$58m (US\$38m).

Over the years Gwalia Consolidated developed into the world's largest lithium minerals producer as well as the biggest producer of primary tantalum.

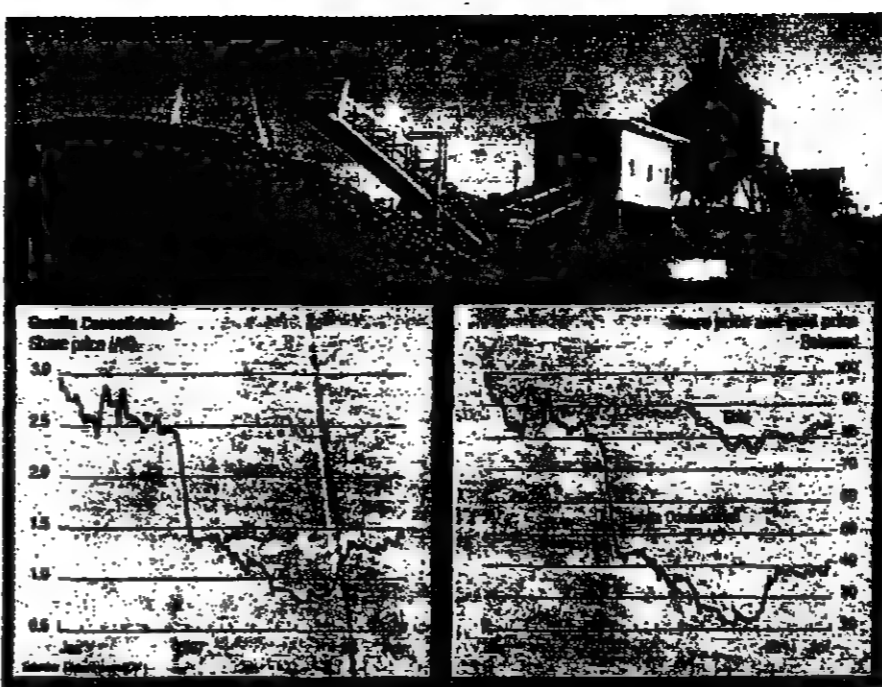
As part of the merger deal, one of Consolidated's big customers, Cabot Corporation of the US, will take a placement of SoG shares, raising \$30m, to cement the relationship with 7 per cent of the new group.

Mr Lalor says the merger does not indicate any lack of faith in gold, which will contribute more than 75 per cent of revenues and enable SoG to keep its place in the FTSE Gold Index. Also, SoG will continue to be one of Australia's big gold explorers, spending nearly \$30m this year.

The SoG board has to be revamped because of the merger and because Jim Almsworth, who retired as chairman of SoG recently, left a gap for at least one director with technical expertise.

"We will have a good financial performance this year and a new board, so it will be an opportune time to complete a strategic review and to look at our next stage of development," says Mr Lalor.

He has some personal misgivings about SoG spreading its interests outside Australia. But he concedes: "If we want to stay a global player we probably have no choice but to go overseas, unless we



find something really big in Australia.

"We will have a strong balance sheet, so we will be ready for expansion. The question is, where will we go? We've had a return on shareholders' funds in excess of 15 per cent for 10 years in a row. So we will be cautious. But we have to grow."

Mr Lalor says the new SoG will stick to gold and industrial minerals and it will not explore outside Australia -

any international expansion will be by acquisition.

There is one element in SoG's philosophy about which Mr Oppenheimer might not be entirely sympathetic. By some accounts he is not keen on gold producers hedging future production. Some gold bulls suggest this process puts a "cap" on gold price rises.

Mr Lalor points out that many Australian gold companies were set up by their present managements at the

start of the boom that took the country's annual gold output from only 20 tonnes in 1981 to 300 tonnes.

"They hedged for survival, to protect their capital base," he says. "I'm running a business, not a speculative entity. We hedge to cover capital costs, exploration costs and payment of dividends. We pay a 25 per cent fully-franked dividend to yield about 6 per cent. With-out hedging, we couldn't guarantee dividends."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amsterdam Metal Trading)

IN ALUMINIUM, ONLY PURITY (5 per cent)

	Unit	Price	Change
Close	1447.5-1452.5	1447.5	-
Previous	1436.5-1441.5	1441.5	-
High/Low	1470.1-1467.1	1467.1	-
Settle	1448.5	1448.5	-
Open	1471.5-1472.5	1471.5	-
Settle	1473.5	1473.5	-

	Unit	Price	Change
Close	1207-12	1207-12	-
Previous	1208-10	1208-10	-
High/Low	1230-10	1230-10	-
Settle	1208-06	1208-06	-
Open	1230-06	1230-06	-
Settle	1230-07	1230-07	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
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Settle	5085-00	5085-00	-
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Settle	5090-00	5090-00	-

	Unit	Price	Change
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Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
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	Unit	Price	Change
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Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
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Open	5090-00	5090-00	-
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	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
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Previous	5070-00	5070-00	-
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	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
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	Unit	Price	Change
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	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
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	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
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	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090-00	5090-00	-
Settle	5085-00	5085-00	-
Open	5090-00	5090-00	-
Settle	5090-00	5090-00	-

	Unit	Price	Change
Close	5085-05	5085-05	-
Previous	5070-00	5070-00	-
High/Low	5090		

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LONDON STOCK EXCHANGE

Footsie stages powerful rally on back of Wall St

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

London stocks staged a powerful rally yesterday, recouping well over half of the ground lost on Monday. The threat of a rise in US interest rates after the next meeting of the Federal Reserve's open market committee was watered down.

The change of heart affecting London stocks came mainly from the US, where one of the influential newspapers published a story that a rise in US rates was

not as clear cut as indicated the day before by another US publication.

London's marketmakers welcomed the apparent change of heart across Europe concerning US interest rate policy, and drove share prices sharply higher. They said the rate stories had been overplayed and markets would have to wait for more evidence about US economic trends before judgement could be made.

But other traders insisted global markets would react more to valuation fundamentals than economics. They said London and Wall Street

were both in dangerously high territory and a further decline by both markets was imminent.

"London is flying around and you have to feel that the euphoria can't last. We've been hoisted today by programme trades on the buy side, but I don't feel there is a lot more behind those," said a senior marketmaker at one of the big international broking houses.

There were suggestions by dealers that some of the aggressive buying in the market could well have come from the "big four" UK fund management groups

that have underperformed the main market indices over the past year and more. Sentiment in London was only marginally dented by rather disappointing trade figures and another bearish survey of industrial trends carried out by the Confederation of British Industry, which said exporters' confidence was at its lowest ebb for 18 years.

At the close, the FTSE 100 had rallied 84.2 to 5,806.6, having hit a day's peak of 5,823.4, up over 100 points, an hour into the Wall Street trading session.

Overnight, Wall Street's

Dow Jones Industrial Average fell over 220 points as the interest rate stories boiled up, hitting sentiment in both bond and equity markets.

Yesterday saw the Dow come in sharply higher and approaching 100 points up as the better feeling on US interest rates stimulated an early injection of funds into the US market.

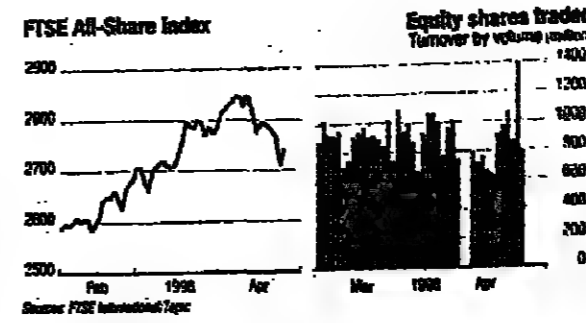
London's second-liners and small caps underperformed the leaders, with the FTSE 250 finishing 3.9 higher at 5,567.9 and the FTSE SmallCap up 1.9 at 2,638.5.

Leading stocks made prog-

ress from the outset with financial stocks, notably the big mortgage lenders, in the forefront of the advance on the view that the sector had been heavily oversold during recent sessions and now offered good value.

News from annual meetings held by Barclays and Northern Rock tended to encourage buyers of those shares, with the latter's comment that it was maintaining market share a strong bull point.

Turnover in equities totalled a rather disappointing 801m shares by the 6pm cut-off point.



Equity shares traded
Turnover by volume (m)

Index	Value	Change
FTSE 100	5806.6	+84.2
FTSE 250	5567.9	+3.9
FTSE All-Share	2740.5	+10.2
FTSE SmallCap	2638.5	+1.9

Indices and ratios

Index	Value	Change
FTSE 100	5806.6	+84.2
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FTSE SmallCap	2638.5	+1.9

Best performing sectors

Sector	Change
1. Chemicals	+3.0
2. Pharmaceuticals	+2.8
3. Electronics	+2.2
4. Life Sciences	+2.2
5. Banks	+2.1

Worst performing sectors

Sector	Change
1. Transport	-1.5
2. Other Financial	-0.7
3. Chemicals	-0.2
4. Support Services	-0.1
5. Media	-0.1

Genco in takeover talk

COMPANIES REPORT

By Joel Kilham, Peter John and Martin Brice

As the dust from the latest joust in the electricity sector starts to settle, investors are looking around for the next scoop.

Texas Utilities and Pacific Corp, both of the US, have been fighting for the hand of Energy Group, Texas - with 28 per cent of the equity and a 20p-a-share bid premium over PacificCorp - looks the more likely winner. Consequently, the market is speculating about where PacificCorp will turn for comfort.

Among the theories buzzing around yesterday is that it might take a crack at PowerGen.

Some analysts said the generator has much that would be attractive to PacificCorp, but the government still has a golden share, which would be a barrier, and PowerGen is believed to be keen to make its own acquisitions. One scenario could be a reverse takeover.

The stock, which was partly supported by interest ahead of the results season and recommendations elsewhere in the sector, rose 4 to 75p.

Goldman Sachs was recommending Scottish Power,

and Merrill Lynch gave a boost to National Power. Scottish dipped 17p to 542p, but National improved 11 to 56p.

Finally, British Energy jumped 10 to 546p with support from Credit Lyonnais, which argues that the stock is the cheapest in the sector. Retailer Sears rose to the top of the FTSE 250 best-performers list yesterday after brokers recommended the stock following better-than-expected results.

The company also announced a capital return to shareholders once its Selfridges and Freemans units are demerged later this year.

The shares closed 4 1/2 or 7.67 per cent ahead at 507 1/2, following heavy trading of 19m.

Dresdner Kleinwort Benson was said to be among brokers that rate the shares. The broker predicts pre-exceptional profits of 528m.

The robust figures from Sears helped trigger interest in Next. The shares had been a weak feature since the high street fashion retailer issued a profits warning last month.

Yesterday the shares jumped 34 to 500p. Morgan Stanley Dean Witter was said to have highlighted the stock in a list of European shares that have fallen 10

per cent or more from recent peaks.

Plans by Scottish & Newcastle's Scottish Courage unit to consolidate its on-trade operations in its four regional trading companies were appreciated by the market yesterday sending the shares sharply ahead.

The company said the plans, which will result in the loss of 300 jobs, will be implemented fully by the end of 1998 at the latest.

SBC Warburg Dillon Read is believed to have upgraded its recommendation on the stock to "buy" from its previous "add" stance.

The broker is said to have made the same move on Beas, up 25 to 211.12, and is also reported to be positive on Whitbread, which gained 15 to 210.45.

Planned disposals of some of its spirit brands continued to boost Diageo. The shares appreciated 28 to 717p.

Banking stocks, under pressure on Monday because of their sensitivity to interest rate concerns, recovered yesterday in a belated response to a review from Morgan Stanley Dean Witter,

which upgraded several stocks in the sector.

Barclays, raised to "outperform" from "neutral" and given a share price target of 220.25, gained 7 to 217.37. Barclays said that on Monday it bought back 700,000 shares at a price of 217.38 each. The previous trading day it purchased 400,000 shares at 217.65p per share.

National Westminster announced just before the close that it had bought back 600,000 shares at 211.32 through Cazenova.

Royal Bank of Scotland, which also featured in Morgan's list of favoured stocks, ticked up 46 to 511p.

Glaxo benefits

Meanwhile, Glaxo Wellcome saw belated benefit from Monday's recommendation by Goldman Sachs. The shares added 60 to 216.07.

Non-life insurers were steady in spite of comments by General Accident about the level of weather-related claims.

General Accident told its annual meeting that its annual meeting, especially in Canada, would increase claims in the first quarter of 1998 by 50m over last year's figure.

It added that the additional claims, together with strong competition in a number of markets, will reduce results for the first quarter. However, analysts said its losses and those for Guardian Royal Exchange in a first part of the year were in

line with market expectations and unlikely to change forecasts for 1998. General Accident was up 13 at 213.23 while Guardian slipped 2 to 394p.

Transport stocks saw buying interest, with bus stocks highlighted by the news that rural bus services would get an extra £12m this year.

Railtrack kept its head above the £10 level, as the stock rose 30 to £10.30. The company has been told by John Prescott, UK deputy prime minister, to rescue the troubled high-speed Channel tunnel link within three weeks.

Stagecoach rose 19 to 211.26p with sentiment in the stock helped by news of its innovative 328m bond to buy new trains.

Bus group Go-Ahead rose 4 1/2 to 636p and Arriva rose 5 to 421p.

Investor enthusiasm for engineering stocks was highlighted as Vespene Thornycroft said Schroder Investment Management had bought 1m shares in the company, or 3.38 per cent, taking its stake to 5.3m shares, or 16.67 per cent. The stock was unchanged at 777p.

Transt Motor rose 5 to 189p after it said it was still in talks with management on a possible offer.

Software company Pegasus Group gained 6 to 356p after it made a bullish trading statement at the annual meeting.

In the same sector, Spargo Consulting gained 6 to 361 1/2p after it said current trading was at a record level. Clothing group Alexander Workwear lifted 2 to 149p in response to a sharp rise in profits.

Biotechnology company Peptide Therapeutics rose 10 to 290p after the company announced a collaboration with Pasteur Merieux-Lyonnais to develop a vaccine against helicobacter pylori, a major cause of peptic ulcers.

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FT 30 INDEX

Index	Value	Change
FT 30	3738.1	+78.4
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FT 30		

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE									
Index	High	Low	52 Week High	52 Week Low	Change	%	Vol	Open	Close
EUROPE (Apr 28 / Fri)									
FTSE 100	4,812.50	4,785.00	5,000.00	4,600.00	+15.00	+0.31	1,200,000	4,790.00	4,807.50
DAX	3,250.00	3,230.00	3,300.00	3,100.00	+10.00	+0.31	800,000	3,240.00	3,250.00
CAC 40	3,850.00	3,830.00	3,900.00	3,700.00	+10.00	+0.26	600,000	3,840.00	3,850.00
IBEX 35	3,150.00	3,130.00	3,200.00	3,000.00	+10.00	+0.32	400,000	3,140.00	3,150.00
ATX	2,150.00	2,130.00	2,200.00	2,000.00	+10.00	+0.47	300,000	2,140.00	2,150.00
PSX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
WSE	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
SEAX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
OMX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
STOXX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
ASIA									
Nikkei 225	14,500.00	14,400.00	14,600.00	14,300.00	+100.00	+0.69	1,500,000	14,450.00	14,550.00
Hong Kong	10,500.00	10,400.00	10,600.00	10,300.00	+100.00	+0.95	1,000,000	10,450.00	10,550.00
Taiwan	7,500.00	7,400.00	7,600.00	7,300.00	+100.00	+1.35	800,000	7,450.00	7,550.00
South Korea	6,500.00	6,400.00	6,600.00	6,300.00	+100.00	+1.54	700,000	6,450.00	6,550.00
Philippines	5,500.00	5,400.00	5,600.00	5,300.00	+100.00	+1.82	600,000	5,450.00	5,550.00
Indonesia	4,500.00	4,400.00	4,600.00	4,300.00	+100.00	+2.27	500,000	4,450.00	4,550.00
Malaysia	3,500.00	3,400.00	3,600.00	3,300.00	+100.00	+2.86	400,000	3,450.00	3,550.00
Thailand	2,500.00	2,400.00	2,600.00	2,300.00	+100.00	+3.85	300,000	2,450.00	2,550.00
Vietnam	1,500.00	1,400.00	1,600.00	1,300.00	+100.00	+7.69	200,000	1,450.00	1,550.00
AFRICA									
FTSE Africa	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
AMERICAS									
S&P 500	7,500.00	7,400.00	7,600.00	7,300.00	+10.00	+0.13	1,200,000	7,450.00	7,500.00
NASDAQ	2,500.00	2,400.00	2,600.00	2,300.00	+10.00	+0.40	800,000	2,450.00	2,500.00
Dow Jones	8,500.00	8,400.00	8,600.00	8,300.00	+10.00	+0.12	1,000,000	8,450.00	8,500.00
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Rockwell Automation

http://www.rockwell.com

FTSE ACTUARIES WORLD INDICES

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IBEX 35	3,150.00	3,130.00	3,200.00	3,000.00	+10.00	+0.32	400,000	3,140.00	3,150.00
ATX	2,150.00	2,130.00	2,200.00	2,000.00	+10.00	+0.47	300,000	2,140.00	2,150.00
PSX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
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SEAX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
OMX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
STOXX	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
ASIA									
Nikkei 225	14,500.00	14,400.00	14,600.00	14,300.00	+100.00	+0.69	1,500,000	14,450.00	14,550.00
Hong Kong	10,500.00	10,400.00	10,600.00	10,300.00	+100.00	+0.95	1,000,000	10,450.00	10,550.00
Taiwan	7,500.00	7,400.00	7,600.00	7,300.00	+100.00	+1.35	800,000	7,450.00	7,550.00
South Korea	6,500.00	6,400.00	6,600.00	6,300.00	+100.00	+1.54	700,000	6,450.00	6,550.00
Philippines	5,500.00	5,400.00	5,600.00	5,300.00	+100.00	+1.82	600,000	5,450.00	5,550.00
Indonesia	4,500.00	4,400.00	4,600.00	4,300.00	+100.00	+2.27	500,000	4,450.00	4,550.00
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Emerging markets:

IFC investable indices

Index name

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Taiwan	7,500.00	7,400.00	7,600.00	7,300.00	+100.00	+1.35	800,000	7,450.00	7,550.00
South Korea	6,500.00	6,400.00	6,600.00	6,300.00	+100.00	+1.54	700,000	6,450.00	6,550.00
Philippines	5,500.00	5,400.00	5,600.00	5,300.00	+100.00	+1.82	600,000	5,450.00	5,550.00
Indonesia	4,500.00	4,400.00	4,600.00	4,300.00	+100.00	+2.27	500,000	4,450.00	4,550.00
Malaysia	3,500.00	3,400.00	3,600.00	3,300.00	+100.00	+2.86	400,000	3,450.00	3,550.00
Thailand	2,500.00	2,400.00	2,600.00	2,300.00	+100.00	+3.85	300,000	2,450.00	2,550.00
Vietnam	1,500.00	1,400.00	1,600.00	1,300.00	+100.00	+7.69	200,000	1,450.00	1,550.00
AFRICA									
FTSE Africa	1,150.00	1,130.00	1,200.00	1,000.00	+10.00	+0.87	200,000	1,140.00	1,150.00
AMERICAS									
S&P 500	7,500.00	7,400.00	7,600.00	7,300.00	+10.00	+0.13	1,200,000	7,450.00	7,500.00
NASDAQ	2,500.00	2,400.00	2,600.00	2,300.00	+10.00	+0.40	800,000	2,450.00	2,500.00
Dow Jones	8,500.00	8,400.00	8,600.00	8,300.00	+10.00	+0.12	1,000,000	8,450.00	8,500.00
FTSE 100	4,812.50	4,785.00	5,000.00	4,600.00	+15.00	+0.31	1,200,000	4,790.00	4,807.50

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3:45 pm April 28

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No FT, no comment.

شكنا من الاصل

هنگام اصل

Dow Jones

Date	Dow Jones
20	9150
21	9175
22	9150
23	9100
24	9050
25	9000
26	8950
27	8900
28	8925

FTSE Eurotop 30

Date	FTSE Eurotop 30
20	1240
21	1235
22	1230
23	1220
24	1210
25	1200
26	1180
27	1150
28	1185

Price	Change	High
\$795.00	+77.0	\$767.0
\$742.50		\$748.5
\$125.00	-120.0	\$135.0
\$171.0	+144.5	\$156.5
Apr 27	281.71	1893
		High
1887.27		1815.58 204
per fraction and share lower:		
402.83	425.50	486.58 214
	-161.88	
485.04	450.48	554.10 222
5327.55	5413.91	5471.90 214
		3169.87
383.13		
715.68	526.82	200.00 514
1357.08	1485.36	1654.78 514
20491.0	22533.0	20577.0 514
yield 12 per cent.		
10948.28	10811.24	12284.34 315
246.01	244.13	257.48 106
1213.82	1238.55	1300.07 102
1323.58	1327.75	1401.27 122
fully industrial capital and building		
		1723.36 315

THE NASDAQ STOCK MARKET

12	12	Steel Tie	0.18	12	430	12	12 $\frac{1}{2}$	12 $\frac{1}{2}$	1 $\frac{1}{2}$	United St	25	806	84 $\frac{1}{2}$	87 $\frac{1}{2}$	88 $\frac{1}{2}$	1 $\frac{1}{2}$	2 months
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AMEX PRICES

[illegible]

STOCK MARKETS

Hard-hit bourses fight their way back up

WORLD OVERVIEW

European equity markets put on an unexpectedly robust performance after Monday's retrenchment and Wall Street's overnight tumble.

The best stories came from the markets hardest hit on Monday, recoveries that were confirmed by a firmer Wall Street in early US trade yesterday. Athens recouped 6.3 per cent having shed 12 per cent over the previous

two sessions, while Milan jumped 4.8 per cent. Madrid was 3 per cent better off and Frankfurt and Paris managed 2 per cent bounces.

Ian Harnett at BT Alex Brown remains cautious, however, saying that European markets look exposed to a 5-10 per cent correction in the short term.

Mr Harnett argues that stronger-than-expected growth is leading to an upward revision in European interest rate expectations,

bond yields and consequently the D-Mark. While continental equities have so far largely ignored these increasingly negative pressures, he remains cautious on the short-term outlook for European equities. However, any market weakness was more likely to focus on worries about the outlook for bond yields undermining highly rated stocks such as drugs and financials, rather than dollar weakness undermining the cyclical.

Earlier in the day, Asian markets were initially rattled by Wall Street's overnight tumble, but many recovered their composure and recouped early losses.

Tokyo proved an exception, losing 1.6 per cent on top of Monday's 2.3 per cent decline, as the yen drifted lower and worries over the outlook for the economy were compounded by news of record high unemployment.

Under the circumstances, profit-taking was overdue.

sché Morgan Grenfell notes that emerging markets in recent sessions have been suffering their biggest correction since the end of the Asian meltdown in mid-January.

Asia aside, the rest of the emerging world had moved sharply higher over three and a half months, with the IFC composite index rising by 26 per cent between January 12 and April 21.

Under the circumstances, profit-taking was overdue.

although the trigger for the latest falls has been concern about the outlook for interest rates in the US and Germany.

Mr Dennis believes, however, that with the Asian economic crisis and worldwide deflationary trends likely to be dominant factors over the medium term, the upside in global interest rates could be limited. It followed that any sell-off in global emerging markets should also be limited.

MARKET FOCUS

Milan euphoria dented by falls

After Monday's 6 per cent fall - the biggest one-day drop since electronic trading was introduced four years ago - the Milan stock exchange yesterday regained some composure.

The market traded nervously at the start as politicians, newspaper columnists and financial pundits continued to offer a flood of contradictory advice to the army of Italian small investors who have been switching in droves from government bonds to equities.

But by the end of the day, encouraged by the early upturn on Wall Street, the Milan index was 4.8 per cent higher at 22,891, with several leading blue chips staging strong recoveries.

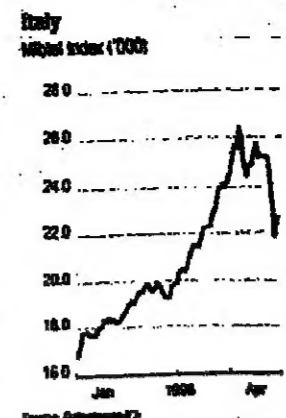
If a correction had been widely anticipated after the 56 per cent rise in Italian equities since the beginning of the year, the violence of the downturn had taken many by surprise. By the close on Monday the Milan index was 18 per cent below its April 7 record of 28,741.

Vincenzo Visco, the finance minister, yesterday added his voice to the chorus warning investors to be prudent. The remarkable rise of the market this year had been "out of any logic", Mr Visco said, suggesting the market could now grow from a more solid base. Some analysts also warned the correction had not yet run its course.

The feverish reaction to the fall reflected what several commentators called the continuing "immaturity" of the bourse.

"Black Monday's" crash, as it is already being dubbed, followed concerns over possible higher short-term US interest rates, ongoing worries over the Far East, and profit-taking in line with other markets.

However, the reaction was more violent in Milan because it had been preceded by what many analysts considered excessive "euro-



euphoria" on the part of small investors, ploughing into the bourse as if they were buying lottery tickets.

Tommaso Padua-Schioppa, the head of Consob, Italy's stock exchange watchdog, warned a few weeks ago during his annual address that the bourse remained too thinly spread with more than 75 per cent of dealings involving the country's 80 largest quoted companies.

A veteran Italian merchant banker emphasised yesterday that the once derided Milan stock market had made "considerable progress" during the last 10 years, noting: "We now have an improved market infrastructure and a large number of financial analysts and researchers we did not have a few years ago." But Italy still needed to develop a strong pension fund and institutional market to provide greater depth.

Many Italian and foreign fund managers consider Italian equities offer good long-term prospects at a time of extensive restructuring and consolidation in wide sectors of Italian industry and finance and a more stable political picture.

However, they concede confidence has been dented, especially after the market lost more than 1,120,000 shares in three sessions.

Paul Betts

Dow recovers as bonds turn higher

AMERICAS

Wall Street made a cautious recovery in morning trade, although the Dow Jones Industrial Average remained below the 9,000 level at mid-session, writes John Labate in New York.

The blue-chip index, which tumbled 147 points on Monday, opened with a burst of buying, quickly sending it more than 70 points higher. Those gains thinned considerably by early afternoon with the Dow up 25.41 to 8,943.06. The broader Standard & Poor's 500 climbed 4.8 to 1,081.42.

"The broader market is doing better than the averages, with 2,000 advancing stocks and only 1,000 decliners," said Larry Wachtel, market analyst at Prudential Securities in New York.

Investors seemed to favour small-cap and tech issues, sending the Russell 2000 up 5.43 or 1.5 per cent to 473.82. The Nasdaq composite also rallied, rising 16.54 to 1,836.96.

Monday's sell-off in stocks and bonds came amid fears that the Federal Reserve was adopting a tougher stance and that interest rates might be on the rise in the near term. But investors were calmer in part on a report that despite the change in bias the Fed was unlikely to change rates soon.

"With a 25 multiple on the S&P, you had better not

have rising rates because money will flow out of stocks and into bonds," Mr Wachtel added.

US Treasuries had moved little by midday, with the benchmark long bond gaining 1/8 to 101 1/8, sending the yield lower to 6.940 per cent. Among Dow component shares, Walt Disney climbed 2 1/2 to \$123 1/2, and Merck 2 1/2 to \$115.

Other health-related stocks made big moves. Pfizer plunged 1 1/2, or more than 7 per cent to \$20 1/2 after a downgrading by analysts at Alex Brown.

In the tech sector, Amazon.com, the online book-seller, surged more than 10 per cent to \$2 1/2 to \$31 1/2, after the company reported better-than-expected results late on Monday. Search engine Excite climbed 50 or 6.6 per cent to \$23 1/2 after Donaldson, Lufkin & Jenrette rated the stock a buy.

TORONTO moved higher in early trading with the heavyweight banking sector rallying strongly. At noon, the 300 composite index was up 36.83 to 7,400.40.

Banks, one of the weaker-performing sectors on Monday as interest rates worries cut a swathe through sentiment, led the upturn.

Royal Bank of Canada gained 85 cents to C\$34.60 and Bank of Montreal put on 75 cents to C\$77.50. Canadian Imperial surged C\$1.65 to C\$50.65.

Mexico City advances

MEXICO CITY rose almost 2 per cent as investors snapped up bargains after Monday's sell-off. The IPC index rose 94.28 to 5,004.05. Telcel, the market benchmark, gained 0.45 pesos to 23 pesos. It announced better-than-expected first-quarter earnings on Monday, while Interacciones, the Mexican broker, raised its rating from "hold" to "weak buy".

SAO PAULO, which fell over 5 per cent on Monday, recovered ground as fears over a rate hike in the US subsided. Investors were also heartened by the government's calls for the continuation of reform efforts following the deaths of two reformist politicians last week. The Bovespa index rose 183 or 1.7 per cent to 11,240.

Johannesburg catches up

SOUTH AFRICA

Johannesburg pulled back as investors, returning after a long holiday weekend, marked share prices down to take account of sharp losses seen in other markets on Monday.

The overall index lost 120.3 or 1.5 per cent to 8,138.3 while industrials lost 101.6 to 9,688.1 and financials shed 246.3 to 14,109.8.

The weaker bullion price was behind a 58.5 or 4.9 per cent tumble in the gold index to 1,047.9.

Tokyo declines on weak data

ASIA PACIFIC

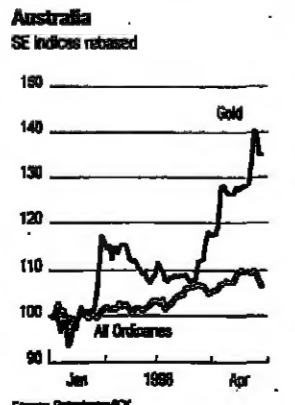
Shares in TOKYO took a dive after Wall Street's overnight fall and as further gloom spread with the announcement of weak economic data, writes Michio Nakamoto.

The Nikkei 225 average lost 254.53 or 1.6 per cent to close at 15,395.43 after trading between 15,625.37 and 15,334.47. Yesterday's fall was the first below the psychologically important 15,500 mark since January 14.

Retreating issues outnumbered advancers 873 to 266, while 153 issues were unchanged.

Economic data released yesterday confirmed the sluggish state of the domestic economy. According to the international trade and industry ministry, production at factories and mines declined 1.9 per cent in March while sales at major department stores and supermarkets in March fell 14.9 per cent year on year to ¥2,010bn. The jobless figure hit a record high of 3.9 per cent in March, after 3.6 per cent in February.

Although comments by Madeline Albright, US sec-



retary of state, welcoming Japan's stimulus package helped to lift the mood, they were not sufficient to reverse the negative trend.

The Topix index of all first-section shares dropped 12.92 to 1,200.90. Volume on the first section was a moderate 400m shares, up from Monday's 320m.

Bank shares fell 1.8 per cent after reports that Elusuke Sakakibara, vice finance minister for international affairs, had said more Japanese banks might fail. Haseko, a major construction company, came under selling pressure on rumours

that it was in difficulties. The shares fell 20 per cent, or ¥18 to ¥70.

WELLINGTON reacted to the steep overnight fall on Wall Street by pushing the 40 capital index down 47.52 or 2.1 per cent to 2,240.09. NZ Telecom lost 31 cents to NZ\$48.45. Brierley Investments ended 3 cents lower at NZ\$1.01 ahead of the post-market announcement of senior management resignations.

SYDNEY fell 36.7 or 1.3 per cent to 2,781.3 on the All Ordinaries index. Gold stocks continued to lead the way down with the sector extending its declines to 7.7 per cent in two days. Normandy Gold lost 7 cents to A\$1.63. Mining group Aberfoyle Mining jumped 49.5 cents to A\$2.99 after a A\$270m takeover bid from Western Metals which dipped 6 cents to 79 cents.

HONG KONG staged a comeback late in the day to close higher as investors covered short positions and hoped Wall Street was heading for recovery. The Hang Seng index recovered from a low of 10,302.58 to finish 84.90 higher at 10,678.61.

The property sector, hard hit on Monday, clawed back some losses. Cheung Kong rose HK\$1.75 to HK\$53.50 and Sun Hung Kai Properties 20 cents to HK\$47.80. China Telecom gained 30 cents to HK\$15.35 on reports that the company was set to buy mobile telephone assets in China's Jiangsu province for \$2.9bn.

SEOUL lost ground for the sixth consecutive day as local investors were discouraged by the low levels of foreign buying, which led the rally in the first quarter. The Kospi index lost 3.96 to 402.39 in dull trading as concerns over the release of forecast earnings figures by analysts also hit sentiment.

SK Telecom fell Won17,000 to Won532,000 while Pohang Iron and Steel, which plans to issue \$100m in depositary receipts overseas, fell Won1,500 to Won69,700.

TAIPEI closed marginally lower as late bargain hunting helped shares cut earlier losses. The weighted index fell 36.36 to 8,424.67.

The electronics index, which had lost ground on fears of a decline in demand from the US, edged up 0.3 per cent on bargain-hunting after an early sell-off.

Under the circumstances, profit-taking was overdue.

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FTSE Actuaries Share Indices

April 28	Index	Day's %	Change points	Vol	Adj	Total vol
FTSE 100	1189.25	+2.06	+24.03	1.35	7.48	726.17
FTSE 250	2711.62	+1.69	+45.01	1.35	7.48	726.17
FTSE 350	1146.08	+1.71	+19.32	2.84	12.48	1179.74
300 UK	214.12	+2.25	+4.87	1.33	4.87	121.37
300 Euro	1207.40	+2.10	+24.86	1.67	2.69	125.23
300 S&P	1176.82	+2.03	+23.40	2.21	10.35	122.23
FTSE Europe 300 Economic Groups	1008.57	+2.48	+24.57	2.71	7.35	1031.18
Resources	1143.08	+2.52	+29.58	1.57	7.19	1133.08
General Industrials	1115.80	+2.16	+23.81	1.59	6.04	1125.81
Consumer Goods	1124.52	+2.08	+22.85	1.54	6.38	1145.88
Services	1201.35	+1.91	+24.46	2.37	1.24	1219.18
Utilities	1234.22	+1.88	+23.57	1.87	8.25	1251.58

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Street with Royal Dutch adding F14 at F113.70 and Unilever F1.30 at F114.30.

There was also keen buying among selected financials. ABN Amro rose F1.10 to F150.00 in 11.8m shares traded while ING recovered F1.30 to F119.

Europe 1997 operating earnings plus news of an upbeat start to the current year at charter and cargo unit Martinair helped KLM rise F1.70 to F178.90.

ZURICH brought its five-day retreat to a halt with a technical rebound that took the SMI index 126.5 or 1.8 per cent higher to 7,180.1.

Novartis was at the centre of attention, gaining SF96 to SF72.435 amid rumours that the company planned to sell its nutraceutical business and that it planned a share buy-back programme.

ABB climbed SF42 to SF72.348 and Holderbank was SF44 higher at SF71.574, with both thought to be profiting from buying by Martin Ebner's BZ Bank. Alusuisse was SF15 higher at SF71.900. After the market closed, Ems Chemie said it held 5.6 per cent of Alusuisse shares and voting rights.

Nestlé picked up SF85 to SF72.682 ahead of today's publication of first-quarter sales figures.

The insurers reporting 1997 figures today were mixed. Swiss Re eased SF3 to SF33.300 while Zurich gained SF17 to SF37.

MADRID rebounded sharply after posting heavy losses on Monday. The general index rose 25.74, or 3.1 per cent, to 859.95 although traders attributed the recovery to technical buying.

Telefonica rose Ptas290, 6.5 per cent, to Ptas4,400 on a rise in its local call rates. Tabacalera, the tobacco group which completed its privatisation process on Monday, rose Ptas5, or 0.2 per cent, to Ptas2,210. The government

FLAVOUR OF THE MONTH?

OR TOAST OF THE LAST 20 YEARS?

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